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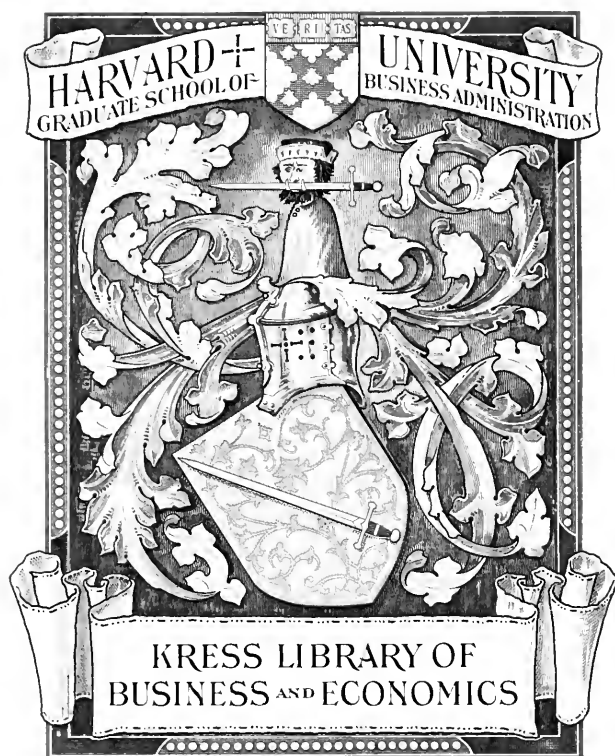
Jorlin, Thomas
Articles on banking and cur-
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T. Joplin

Articles on Banking & Currency.
from "The Economist" Newspaper.

1838.

very scarce.



ARTICLES

ON

BANKING AND CURRENCY.

FROM

“THE ECONOMIST” NEWSPAPER.

By ^{Thomas} T. JOPLIN, Esq.

PUBLISHED BY RIDGWAY AND SONS,
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ARTICLES
ON
BANKING AND CURRENCY,
&c. &c.

INTRODUCTORY OBSERVATIONS.

SEVERAL members of the Joint-Stock Bank Association having thought that many of the articles of the *Economist* on Banking and Currency might be usefully re-published, the late Editor has been requested to make a selection of them for that purpose.

The *Economist* was set on foot by Mr. Joplin, with the support and approbation of the Committee of the Joint-stock Bank Association, not as a newspaper speculation, but simply to protect the interests and defend the principles of Joint-stock Banking, at a time when they were in great danger from being impugned and misunderstood. The object in starting it having, in a great measure, been accomplished, it was for this and other reasons given up, though there was much probability of its success as a newspaper, having gained considerable reputation, both at home and abroad, as well as an extensive circulation for the character of the paper, and the short period of its establishment, which was also gradually increasing.

It is likewise proper for the Editor to state, that the leading articles on Banking, Currency, and commercial subjects were written, or rather dictated, by Mr. Joplin, and the following are consequently entitled to any authority which may be attached to that gentleman's name and experience.

Previous to the establishment of the *Economist*, there was a general disposition to charge the Joint-stock Banks with the

existing embarrassments; and one object of the following articles, as will be seen, was to direct public attention to the true source of the mischief, the management or mismanagement of the circulation by the Bank of England.

It seems by no means improbable, from the state of public opinion on the subject, as well as from their own recorded opinions, that Government will, sooner or later, adopt some course with respect to the Currency which may not turn out beneficial to those who issue it. If, however, this be done with respect to the Joint-stock Banks, it will only be from want of a proper combination amongst them. Mr. Joplin has stated in his last pamphlet,* that should any comprehensive measure for the regulation of the Currency be entertained, there is no necessity whatever for its being rendered unacceptable either to the Private or Joint-stock Banks; and until such a statement, coming from any one at all possessing knowledge of the subject, be disproved, the Joint-stock Banks have a right, and are called upon to use their best exertions to prevent, the interests of their constituents being trifled with by projects for settling the currency.

The articles are not given in the order in which they appeared, but are divided, as far as practicable, into subjects and chapters, to each of which a concise introduction is appended.

It may likewise be proper to observe, that such articles only have been selected as possess general interest. Those which were addressed to the Joint-stock Banks in particular, recommending union, &c., it is hoped there is no necessity of repeating with reference to the banks themselves, and they would possess no interest with the public.

It will also be seen by the readers of the *Economist*, that the headings of some of the articles have been altered, and that the first one has been re-written, for the sake of increased perspicuity.

* Answer to the Report of the Joint-stock Bank Committee of 1836.

CHAPTER I.

INTRODUCTION.

THERE are five articles included in this chapter, all tending to show the folly of the Bank of England monopoly, and the propriety of a persevering inquiry into the evils of it.

The *first* explains the nature of the money market, and the cause of the late pressure upon it, by which the difficult trust imposed upon the Directors of the Bank of England will be seen, and their incompetency for it inferred.

The *second* analyses the Bank monopoly ; exhibits its cost in pounds, shillings, and pence ; as, also, its evil consequences to the country at large ; shows the folly of Lord Althorp in renewing the Bank charter, and suggests the propriety of immediate investigation into the subject.

The *third* points out the erroneous principles laid down by the Bank of England for the management of the circulation, from which it may be inferred, that if it would be difficult, as may be seen by the first article, to manage such a trust with the best knowledge and the most correct views, how dangerous must it be in the hands of men who actually profess to govern it by principles which are wrong.

The *fourth* exhibits the folly of prophesying evils without taking means to prevent them, and enforces the propriety of a thorough investigation into the cause of the late embarrassments, with a view to the prevention of a recurrence of such disasters in future ; and

The *fifth* shows that the renewal of the Bank Charter arose from the imperfect inquiries of the Bank Charter Committee in 1832,

and the impatience of Lord Althorp to get rid of the subject ; and recommends that investigation be set about forthwith, however imperfect the mode of conducting those investigations may be, and be persevered in until the truth be discovered.

ARTICLE I.—CAUSES OF THE LATE PRESSURE IN THE MONEY
MARKET EXPLAINED.—MAY 27, 1837.

The money market is a term more frequently expressed than understood, and in considering the late pressure it is necessary that we should have precise notions of what is meant by this term ; with this view it may be proper to observe, that a market is a place where commodities are bought and sold, and though there may be a market-place, there cannot be a market without commodities for sale. In Covent-garden we see the cabbages, oranges, &c., constituting the stock in the market for sale. In Mark-lane we see the samples only. But we are equally satisfied of the existence of the quantity of corn at market. Both in Covent-garden and at Mark-lane there is thus a tangible stock of commodities for sale, and in the market for money there must be, and is, a tangible stock of money to be disposed of, otherwise there could be no market ; and the question is, where is this money ? It ought to be as easily discerned as the corn at Mark-lane, or the vegetables at Covent-garden. And let us endeavour to find out where it is.

In the first place, there is no money in the Bank of England ; that is to say, the Bank never has any stock of money (or capital) *on hand*. Its bullion in its own hands is a dead stock, which forms no part of the capital in the money market ; while, on the other hand, it keeps its circulation to a particular level with reference to the interests of the country, and not with reference to the demand and supply of capital. If money be placed in its hands, it lends it out again forthwith, in discount of commercial or in purchase of Exchequer bills ; and if, on the contrary, money be drawn out of its hands, it does not allow its issues to be increased thereby, but either diminishes its discounts or sells Exchequer bills to an equal extent.

The stock of money possessed by the Bank of England, con-

sequently, is not in the Bank of England, but in the money market, which market is never affected by the operations of the Bank, unless it actually increases or diminishes its issues. We cannot, therefore, look to the Bank of England for that tangible stock which exists in the money market.

Now, the chief dealers in money or capital are the bankers and money brokers; let us suppose, therefore, that parties purchase into the funds, the broker almost without exception gives a check upon his banker for the money, and the seller almost without exception pays the money into a banker's hands again. So that putting money into the funds is, generally speaking, to do nothing more than put it where it was before, into the hands of a banker; this may be said of nearly all other transactions in the money market, the place from whence it comes is the till of the London banker, and the place to which it returns is the till of the London banker. And in the tills of the bankers of London is found that stock which forms the immediate supply of the money market. The London bankers imagine that they keep their reserves in the Bank of England, but the fact is, the Bank of England keeps its reserves with them.

It is never the interest of the banker to have more money than necessary, or less than prudent, in his till. If he has too much he lends it out at a low rate of interest, by which a demand for it is created; and if he has too little he curtails his advances to his customers or the public, and by this means withdraws the amount from circulation which he requires to supply the deficiency. There are about seventy bankers in London, and if they have 50,000*l.* in their possession, on the average, the average stock of the money market will be three millions and a half, which it will be their endeavour shall not vary to any great extent, and it is not improbable that a difference of half a million in the aggregate amount of this stock will be sensibly felt in the market. When this stock is reduced, the mode of replenishing it, as we have stated, is, for the bankers to contract their loans to the public, and by that means withdraw an equal amount from practical circulation. This may be done to a limited extent, without any great inconvenience. The effect of it, however, is, to check the demand for goods on the part of the merchants, shopkeepers, and others, who are not so free in ordering what

they have a greater difficulty in paying for, and labour is consequently thrown out of employment ; so that the reserves of the banker are replenished out of the stomachs of the working classes, and when this is carried to any great extent, as has been recently the case, that state of general derangement takes place from which we are now suffering.

Some such explanation as this is necessary to our comprehending how so great a derangement as the present one could have been produced by causes so apparently inadequate.

Amongst these causes may be enumerated the establishment of forty or fifty joint-stock banks, with a large number of branches, which for the most part came into operation in the concluding part of the last year ; each of these would take, or employ, a reserve of Bank of England notes and gold, which, as the Bank did not increase its issues to meet this demand, would be taken out of the money market of London, and have a tendency to make money scarce. The foreign exchanges being also against the country at the time, the Bank of England rather suddenly contracted its issues, to the extent of a million in notes, and probably another million in gold. This created a pressure, which gave the alarm to the private bankers throughout the country, who, it is understood, increased their reserves ; if they did this to the extent of not more than five or six thousand pounds each, on the average, it would create a demand for three millions more, making a total contraction of the London circulation of probably six millions. Now, the practical circulation of gold and Bank notes from which this six millions would be abstracted may possibly not exceed twelve millions, for we have no certain data by which to determine the proportion of the Bank circulation of notes and gold employed in London, and the proportion held by the bankers and otherwise employed throughout the country. But when we consider that the stock of money in the market was not much more than half this sum of six millions, and that the bankers at such a period would be disposed to increase rather than diminish the stocks of money in their tills, and that, consequently, the whole of the six millions would have to be abstracted from the practical circulation of London, it will help us, in some degree, to discover an adequate cause for the severity of the late pressure.

We may, therefore, briefly recapitulate, that it appears to us probable that the present difficulties have been caused partly by the contraction of the London circulation, produced by the sudden establishment of so many joint-stock banks; but chiefly by the sudden contraction of the issues of the Bank of England and the increase of the reserves of the private bankers, the necessary result of the system of private banking unfortunately still so prevalent throughout the country, producing in all a sudden contraction of probably six millions out of a circulation of twelve.

Hence, if this view be correct, we cannot be at all surprised at the severity of the pressure we have recently experienced. But when it is considered that the commerce not only of England but of the whole world has been deranged by it, and that the management of this complicated and delicate machinery, so easily deranged, and upon which so much depends, is in the hands of the Directors of the Bank of England, who do not, and probably never will, understand it, we may, on behalf of the commercial world, put the questions—Is this a state of things that ought to be permitted to continue? and are the Bank Directors the proper parties for the administration of such a trust?

It may, indeed, be remarked, that if the establishment of joint-stock banks was one of the original causes of the late pressure, this may, in some degree, justify the hostility with which they have been assailed. But the evil, as far as they are concerned, did not exist in the establishment of the banks, which was a *public good*, but in the system of currency itself, and in the want of knowledge and judgment in administering it by the Directors of the Bank of England, which could render such a good in any way productive of evil.

ARTICLE II.—COST AND CONSEQUENCES OF THE MONOPOLY OF
THE BANK OF ENGLAND.—SEPTEMBER 23, 1837.

By an account of the meeting of the shareholders of the Bank of England, held on Thursday last, it will be seen that, as usual,

a dividend of 4 per cent. upon the capital stock of the Company for the last half year was declared. EIGHT per cent. per annum is a very handsome dividend to make upon so large a capital. It amounts to 1,164,234*l.*, which is about half a million more than the Bank would make by investing its capital in the funds, and letting its premises at its own valuation. Its capital, including the *rest*, or surplus profits, amounts to about seventeen millions, which, in the 3 per Cent. Consols, would produce about 550,000*l.* per annum, and the premises being valued by the Bank at 40,000*l.* a year, its income in this way would be something less than 600,000*l.*; and the difference between this sum and 1,164,234*l.*, its actual dividends, or something more than 500,000*l.*, is the additional profit which it acquires by banking.

Now, no one can go into the Bank of England, for the most trifling occasion, without perceiving that it does its business at three times the cost of any other banking company. If he wants a simple Bank post-bill—that is, if he wants the acceptance of the Bank for a hundred pounds, he is very fortunate if he has not half a dozen clerks to communicate with on the subject; and yet, notwithstanding the cumbrous and expensive machinery it employs, the Bank still realises the large aggregate profit we have mentioned. But no one, in the least degree acquainted with the business of banking, can suppose that such a profit could be obtained by such management under a system of free competition. It can only be obtained by the monopoly which the Bank enjoys; in other words, by a tax upon the public; and it will be well to inquire, first, what is the nature of that tax; and secondly, what is the *quid pro quo* which the public receive for it.

On the renewal of the Bank Charter, the monopoly of the Bank of England was secured to it by a clause which prohibits the establishment of any other joint-stock bank of issue within sixty-five miles of London; and Mr. Alderman Thompson, in defence of this monopoly, stated that, *having agreed to deduct 120,000*l.* from its charge for managing the public debt*, the Bank considered the extension of her privileges to *sixty-five miles* as a compensation.

Now, the management of the public debt consists in employing clerks to keep the accounts of the individual creditors of the state,

and these accounts are kept in the easiest manner possible. The Government owe a certain amount of debt ; for the sake of illustration say 1000*l.*, distributed amongst ten persons, A, B, C, &c., who hold 100*l.* each, and have to receive half-yearly the interest of it. An account is opened with these individuals in a ledger, and each one has 100*l.* placed to his credit, entitling him to receive—say 1*l.* 10*s.*, as a half-yearly dividend. If A desires to sell any portion of his stock—say half of it—to another of the parties, B, then A, either in person, or by power of attorney, orders the transfer of so much to be made from his own name to that of B ; and B signifies his acceptance of it. The clerk, in consequence, debits A with what he has thus transferred, and gives B credit for it ; so that B becomes a creditor of the state for 150*l.*, and A remains a creditor for 50*l.* Or, if the transfer is made to a new party, X, then a new account is opened with X, and X is introduced as a creditor of the state for 50*l.*, A becoming one for so much less ; and, in both cases, the party in whose name the stock stands at the end of the half year, receives the dividend for it. In simple book-keeping like this, consists the whole of what is called “the management of the public debt ;” to the expense of which, however, must be added the risk of forgery, it being the law, that if the stock of any individual is transferred by forged powers of attorney, the Bank, and not the individual, suffers the loss.

Now, the Bank estimate the cost of their management of the public debt at 164,000*l.* (in which sum is included 26,000*l.* for rent, and 4000*l.* for the directors’ trouble) ; and their loss, by forged powers of attorney, upon an average of fifty or sixty years, being about 10,000*l.* per annum, the aggregate cost to them, at the outside, may be stated at 174,000*l.*, one year with another.

On the other hand, we find that, previous to the renewal of the Bank Charter, Government paid them for the trouble and responsibility of this management 251,000*l.* per annum ; and 120,000*l.* having, as already stated, been deducted from this charge in 1833, the Bank at present receives only 131,000*l.* for managing the debt. The cost to the Bank being, as made out above, 174,000*l.*, it appears that by this branch of its connexion with

the Government, an advantage of 43,000*l.* accrues to the latter. Again : by lending her capital to the Government at 3 per cent., while the value of money, as tested by the price of Consols, is $3\frac{1}{4}$ per cent., the Bank loses 37,000*l.* per annum; so that the whole premium which she pays to Government for her monopoly amounts to 80,000*l.* per annum.

Let us now look to the other side of the account—to the profits she makes by the monopoly.

In the first place, the Bank holds, on the average, 4,000,000 of Government deposits, for which it pays no interest, but for which any other joint-stock banking company would allow 2 per cent., and probably more. This, then, is a profit to the Bank of at least 80,000*l.* a year. In the second place, taking the circulation of the Bank, on the average, at eighteen millions, and her bullion at seven millions, the Bank thus obtains the use of eleven millions of capital employed at say $3\frac{1}{2}$ per cent., producing 385,000*l.* per annum. Nor ought the eleven millions to be valued at less per centage than this; for it is equal in value to a permanent capital, and has indeed been re-advanced to the Government in purchase of the dead weight at upwards of $4\frac{1}{2}$ per cent. But from this sum of 385,000*l.* is to be deducted the “expense of circulation,” 106,000*l.*; and the cost of stamps 63,000*l.*—total deduction, 169,000*l.*, leaving a *net* profit from the circulation of 216,000*l.*

The balance, then, of the profit and loss to the Bank by its monopoly of the business of Government, and of the circulation of London, will stand thus :—

PROFIT.		
By Government deposits ..	£ 80,000	
By circulation	216,000	
	<hr/>	£296,000
LOSS.		
By management of debt ..	43,000	
By capital lent at 3 per cent.	37,000	
	<hr/>	80,000
		<hr/>
Balance in favour of the Bank ..	£216,000	

We showed, at the commencement of this article, that the profits made by the Bank, over and above what its capital, if invested in Government securities, and its premises, if let out to rent, would produce, exceed 500,000*l.* a year. Of this large sum we see 216,000*l.* accounted for under the heads of the Government business and the London circulation. Of the remainder, the Bank derives the greater part from its large amount of individual deposits, about eight millions on the average, by which the public sacrifice to the Bank 160,000*l.* a year, by foregoing the interest upon them, which, under a system of free competition, other banking companies would be able and willing to give. She owes, therefore, this 160,000*l.* also to her monopoly; for there are not, probably, a hundred persons who keep an account with the Bank of England, who do not, for their more frequent occasions, keep an account also with a private bank, and only place their larger deposits with the Bank of England for the great security which it affords—a pre-eminence for which the Bank is solely indebted to the paralysing effect which its exclusive privileges have had upon every private establishment in the metropolis.

And, indeed, it is in this last effect that the mischievousness of the Bank Charter is still felt, in a degree to render even the direct pecuniary tax it imposes upon the country trifling in comparison. It is in the weakness of the *private* banks (the fruit of the Bank Charter*)—in their want of confidence in themselves,

* The following is a list of the City banks that were members of the Clearing-house in 1810, distinguishing those that have since failed:—

FAILED.

1. Anderson and Co.
2. Boldero and Co.
3. Bond and Co.
4. Brickwoods.
5. Sir Peter Pole and Co.
6. Esdaile and Co.
7. Fry and Co.
8. Kensingtons.
9. Lees and Co.
10. Mainwaring.
11. Ramsbottom.
12. Sansom and Co.
13. Stephenson and Co.
14. Were, Bruce, and Co.
15. Whitehead and Co.

REMAIN.

1. Barclay and Co.
2. Bosanquet and Co.
3. Chatteris, now Whitmore & Co.
4. Barnard and Dimsdales.
5. Dorriens.
6. Forster, Lubbock and Co.
7. R. Fuller and Co.
8. Glyn and Co.
9. Hankey and Co.
10. Sir C. Price and Co.
11. Barnett, Hoare and Co.
12. Jones, Loyd and Co.
13. Ladbroke's.
14. Langston and Co.
15. Lefevre Curries and Co.

if not of credit with the country, in periods of pressure, and their consequent action upon the circulation—that the monster evil of that charter consists. And what does the Government or the public gain by it? The Government frees itself of the trouble of managing the public debt—which we have shown to be no trouble at all—and involves itself, on the other hand, in continual uneasiness about the pressures and the panics which are being perpetually generated by the mismanagement of the London circulation. As for the public, we have seen what they pay for this questionable relief to the Government, besides being subject to other inflictions, of which it would be difficult to estimate the cost.

It may, however, be said, that the Government *ought* to have a Bank of its own, to pay its cheques and receive its deposits: be it so; there is no occasion for a monopoly to provide the Government with such a simple convenience. Throw open the trade; and the Government will have an option of banks ready to do its business cheaper than the Bank of England, exclusive of the great saving to the Government and the public, and dispensing with the other evils of the present monopoly. The Bank of England, no doubt, as is usual in banking, accommodates the Government at times in anticipation of its revenue; but whenever it does so, the Government supplies it with Exchequer bills, which it sells in the market; so that it is indebted to the public for the assistance which it affords to the Government, being a mere middle party in the business, as any other bank would be. In short, the Government get nothing from the Bank which it would not get elsewhere, if the monopoly were destroyed, and upon easier terms; the large dividend it pays being a tax of the most injurious description that could be

FAILED.

- 16. Perring and Co.
- 17. Clark and Co.
- 18. Bloxam and Co.
- 19. Sykes, Snaith and Co.
- 20. Everett and Co., stopped,
but paid in full.

REMAIN.

- 16. Martin and Co.
- 17. Masterman and Co.
- 18. Prescott and Co.
- 19. Roberts and Co.
- 20. Rogers, Towgood and Co.
- 21. Smith, Paine and Co.
- 22. Spooner, Attwood and Co.
- 23. Hanbury, Taylor and Lloyd.
- 24. Veres and Co.

extorted from the country, seemingly for the mere purpose of procuring a body of gentlemen to mismanage the currency, without responsibility to any one.

We trust another session will not pass over without a more efficient inquiry into these matters, with a view to a better management of the circulation in the mean time, and the eventual destruction of the Bank monopoly in the end. This latter point ought to be discussed and settled long before the Bank Charter expires. It is too late to begin to *consider* when it is time to *decide*. We have no doubt that Lord Althorp's reason for renewing the Bank Charter in its present form was, that he felt himself unprepared with any thing better; and if inquiry is again put off till the Charter is on the eve of terminating, the Government and the country will find itself in the same predicament. Indeed, if the subject were properly understood, we have no doubt that the monopoly would be terminated by purchase. The public would not permit its continuance for another twelve months.

And as regards the currency, some better arrangement for conducting it is not the less necessary from the difficulty which the Bank begins to experience of keeping up the present amount of dividend; a difficulty which the competition of the joint-stock banks is calculated to increase; and as the first duty of the directors is to consult the interest of their shareholders—the duty which they owe to the country being only subsidiary to it—their position has become one by which no Government ought to allow the interest of the country to be jeoparded. Not that we wish to cast any imputation upon the Directors of the Bank: their very integrity in the situation in which they are placed, is one argument against their being depended upon by the country.

ARTICLE III.—ERRONEOUS PRINCIPLES PROPOSED FOR THE
REGULATION OF THE CURRENCY BY THE BANK OF ENGLAND.
—OCTOBER 28, 1837.

An article appeared in the *Courier* on Friday week, which exhibits our great currency philosopher, Mr. Macculloch, in a

new light, namely, as a practical improver in the details of banking. In that article he proposes that the Bank of England shall take up the business of the Messrs. Rothschilds, and become a buyer and seller of foreign bills of exchange; that it shall keep a stock of gold in France and the United States, to enable it to carry on this business; and that its circulation shall only be increased or diminished according to the supply of, or demand for, such bills on the Royal Exchange. The practical result of this splendid conception, provided that it *could* be reduced to practice, would be that a few shillings per cent. would be saved, in the transmission of specie backwards and forwards; and this, indeed, is all the advantage which Mr. Maculloch himself appears to anticipate from it.

So far we perceive “no harm and little good;” but if we look to the confident tone in which, by implication, Mr. Maculloch corroborates the erroneous principles upon which the Bank of England regulates her issues, the “*danger of ignorance*” in such a quarter is rather alarming; for, considering the confidential footing upon which Mr. Maculloch is supposed to stand with the Bank, we cannot eschew the suspicion, that his adhesion to an unsound doctrine in currency, is intended not only to conform to, but to confirm, the mistaken principles upon which the Bank has too long and too disastrously acted. We speak of the principles upon which she professes to regulate the circulation.

In 1832, the Bank explained those principles to the Parliamentary Committee, which was then inquiring as to the renewal of her charter. Mr. Horsley Palmer explained them thus:—that supposing a period of full currency—*i. e.* the exchange being at par—the Bank invested *two-thirds* of its aggregate liabilities—*i. e.* its deposits, and the value received for its notes in circulation—in securities—and invested the *other third* in bullion; and afterwards left the circulation to regulate itself by the exchange with foreign countries—*i. e.* to contract as gold came in, and to expand as gold went out.

The very declaration of a principle like this, was a *primâ facie* proof of the incapacity of the Bank to administer the circulation, inasmuch as they made the very basis of it the confusion of two

things—namely, the circulation and the deposits—which have no mutual connexion with each other, and are regulated by entirely different principles; and yet they are mixed up with each other in the Bank *formula*, for regulating the currency, as if there was some established arithmetical condition between them! The Bank Charter Committee, however, did not appear to possess that accurate and acute perception of the bearings of the subject, necessary to the detection of such errors. We do not mean to say that they were convinced that the Bank was right; but they lacked the tests, which would prove that the Bank was wrong, and did not know how to submit the Directors to that sort of cross-examination, which would have supplied such tests. What the committee believed was this: that if the Bank had twenty millions in circulation, and ten millions in bullion, at any period, the Bank allowed the twenty millions of circulation to increase or decrease rigidly, as bullion was brought to, or taken from it; so that, for example, a drain of five millions of bullion would diminish the circulation to fifteen millions, and an influx of five millions of bullion would raise the circulation to twenty-five millions. And this process, Lord Althorp, in his speech, on the renewal of the Bank Charter, lauded as the constant effect and great virtue of the principle, upon which the Bank “regulated the circulation.”

Now this principle—we mean such as Lord Althorp supposed to be acted upon—was an erroneous one; for it assumed the Bank of England to be the Bank of *England* in reality, instead of being what it really is, merely the Bank of *London*. It assumed (in other words) that all the specie which is received in London, and is locked up in the Bank coffers, is received on *account of* London, and not on account of the country at large; for the *action* of the principle is, that all the expansions of issues to meet an import of gold enter into the circulation of London, and all the contractions of issues forced by an export of gold are taken from it. This is the principle the Bank profess; though they never literally carry it out, or attempt to do so.

It is, nevertheless, to this “rule of action” that most of our severe commercial embarrassments (fluctuations) are to be attributed; for though they do *not* act upon it as a rule,

they cause as much mischief with their experimentalising with it, as the pressure of circumstances will permit them. Mr. Lloyd and Colonel Torrens, in their very able pamphlets have demonstrated by plain figures, that the Bank does not act upon its own principles; and Sir Francis Knowles, by a somewhat higher mode of analysis, has reduced those principles to the *reductio ad absurdum*, which proves their inaptitude to the circumstances they are held forth to control.

The conclusions which we draw are two-fold.

The first is, that the Bank, by professing principles upon which it does not act, proves itself unfit for the trust reposed in it; for either those principles being wrong, proves their ignorance, or, their practice being inconsistent with those principles if right, proves them not to be depended upon.

The second is, that Mr. Maculloch's improvement is no improvement at all, inasmuch as it is a mere expedient to facilitate the operation of a principle, which is at once erroneous and impracticable. We should have passed it over as altogether too visionary for our notice, had not Mr. Maculloch's relation to the Bank been such as almost to identify his speculations with the embryo projects of the Directors themselves; and lest a silent disregard of the one, might be misapprehended as a tacit assent to the other.

ARTICLE IV.—THE COMMERCIAL CONVULSION FORESEEN BY
MINISTERS WITHOUT THEIR TAKING ANY STEPS TO PREVENT
IT.—JULY 8. 1837.

We have elsewhere given the grave details of the budget; but there are generally a few episodic remarks interspersed, with the intention of elucidating the financial philosophy of the year, which the critical economist should be careful to note. It is from the reflections which men indulge upon their own past conduct that we may best judge of their future proceedings; and we may be sure, that when an honourable man extracts a justification of his policy from the very failure which has attended

it, he is supported by a consciousness of honesty and powers of ingenuity, which form a combination almost impregnable to conviction. Ridicule may sometimes bear it down : but the victory of ridicule is mostly an unworthy one.

The episode to the *exposé* of the budget could not fail to be the commercial convulsion from which the country has suffered so severely during the year. The Chancellor of the Exchequer, in his descriptive character of it, repudiated the “passing cloud” of the Bank Directors, as well as the more “extravagant metaphor” of the member for Sunderland. Yet, agreeing with him that poetical figures are not well adapted to the occasion, we should have been pleased had his own prose been of a less ordinary stamp. That the “worst was passed,” is a consolation as old as our first recovery from the first trouble of the kind in 1783. It is no guarantee that the “worst” may not happen again, and as often as it has done. We should have augured far better had he said, “let us see how the evil has come to pass, and how it may be prevented for the future.” Instead of this — which, if experience is to make men wise, we maintain to be the proper use which prudent men are to make of their misfortunes—instead of this, the Chancellor of the Exchequer feels satisfied with reminding us that he foresaw and dreaded the “worst ;” but that the “worst” having passed, it was not his duty to examine into the history of it. “Not only in the month of May, 1836, when making his financial statement, but on antecedent and subsequent occasions, he took the liberty of stating to the House of Commons, that there were many considerations connected with the general increase of prices, connected with the growing extravagance of speculative transactions, and connected with the great extension of credit throughout the country, which might lead to an alteration in those circumstances which were then appealed to as the foundation of hope.” But, again — “It was far from his duty, and, therefore, it was far from his intention, to enter into any history of the commercial difficulties which had arisen in the country, contenting himself with repeating the full confidence he entertained, that of those difficulties they had seen the worst!” The question with the Finance Minister of the country ought to have been, not whether of these diffi-

culties we have for the time present seen the *worst*, but whether for time to come we had seen the *last*. No one, looking to their periodical recurrence during the last fifty years, can believe that they will not visit us again in the usual cycle, unless, in the interval of their absence, we set about discovering the cause of them, and the means to avoid them. Of what use is the history of any crisis in human affairs, except as affording materials to analyse for our future instruction? It not only furnishes the grounds, but suggests the necessity, of inquiry. It is evident that neither the Chancellor of the Exchequer nor Sir Robert Peel prophesied the coming convulsion by mere inspiration. Indications with which the repetition of similar calamities had rendered them familiar, plainly foreboded that the old principle of mischief had commenced its mysterious operations once more, and it was the province of statesmen to detect and counteract it. The Chancellor of the Exchequer did little more than sit down and quietly await the impending distress as the unavoidable retribution of our previous prosperity. Prosperity and distress were supposed to succeed each other as naturally as daylight and darkness; and his anticipations of brighter prospects seem to have no better ground than the figurative proverb, "That when the gloom is deepest, the dawn is nearest." It is the opinion, however, of men well conversant with the subject, that our sudden and repeated passages from a highly flourishing to a ruinous condition are effected by no uncontrollable law of nature. They trace them to a complication of mistakes on the part of the Bank of Directors—to their mismanagement of a misconstructed machinery—to their having adopted a false rule, and further aggravated the error by a false application of it. In Mr. Joplin's "Digest of the Evidence on the Bank Charter," published by Ridgway, in 1833, he clearly predicts the consequences which have ensued:—"All these evils, he observes, have arisen from the adherence of the Bank to the principles laid down for their government by the Bullion Committee and Cash Payment Committees of 1819. And if the Bank continue to act upon them, *we shall certainly have another panic, or be on the verge of one, in no great length of time.* The exchanges have for the last twelve months been, and are now in our favour,

to a great extent, so that money was never more plentiful in the London money market than at present. This, of course, as always has been the case, will be followed by a reflux of gold to a similar extent; and if the extreme of scarcity be equal to the present extreme of abundance, which we have no reason to doubt, the most appalling effects must ensue. Even the legitimate rule of the Bank is the most fatal rule for the country that they could have adopted; so that whether we look to their wisdom and discretion in acting upon the rule, or to the rule itself, we can discover nothing that may not be termed fatally erroneous."

As early as 1834 a pressure occurred, which realised the words we have marked in italics; and is it not strange that another and severer crisis should have been permitted to overtake us in 1837, without the least attempt in the interval to ascertain the cause of these derangements? The aversion on the part of the Government to an effective inquiry, has been attributed to a reluctance to involve themselves so soon in another discussion of the Bank Charter; but we trust they are already prepared to sacrifice any feeling of this kind to the opinion of the country. The *Times*, on Monday last, puts forth the following significant remarks:—

"Mr. Rice is not convinced, it is plain, that the whole circulation of the country ought to be placed under the control of the Bank Directors—a trust which they are quite prepared to undertake, but for which recent events have proved, in a remarkable degree, their total unfitness. The silence of Mr. Rice (on this subject) has tended to give some strength to an opinion which has been stated in the city within these few days, that a project has been entertained at the Treasury for purchasing the interest of the Bank in the six years yet to come of the Charter, and starting a National Bank upon an altogether different plan."

No good reason, or sufficient excuse, has ever been shown for investing the Bank of England with peculiar and exclusive powers of controlling the circulation of the country at large. She ought to possess no preference nor privilege in this respect over other banks. The supposed project of the Treasury we know nothing about; but of this we feel assured, that Parlia-

ment will not tolerate the idea of *any* Government settling this question in its own way, without full inquiry and deep consideration. It has long been discovered that the cares and distractions of office afford no special opportunities for men becoming wise upon such subjects ; and one good, at least, has arisen from the repeated disappointments of ministerial projects for "settling the Currency," namely, that a Parliament which should again confide this question to the "wisdom of Government," would itself lose the confidence of the country.

ARTICLE V.—COMMITTEES ON THE BANK MONOPOLY.—
SEPTEMBER 30, 1837.

It is gratifying for us to discover, that our labours are appreciated in channels in which they are likely to be useful ; and as men of active minds cannot give up thought with occupation, probably this period of general leisure, which affords both time and opportunity for reflection, is as favourable to usefulness in our vocation as any other period of the year ; and as the Bank of England is the great master-mischief of the day, we cannot be more beneficially employed than in the discussion of it.

Indeed, if we only look back to the decision which was come to respecting the Bank ten years ago, we shall be surprised to find that this discussion is necessary. When the Bank of England was called upon, in 1826, to abandon a part of its exclusive privileges, a letter was addressed to the Directors by Lord Liverpool and Mr. Robinson (now Earl of Ripon), reminding them that "such privileges were out of fashion, and that the Bank could entertain no expectation that *theirs* would be renewed." In this letter a disposition was expressed by the Government to give every legitimate *preference* to the Bank ; but at the same time it was distinctly avowed that the Legislature would not sanction the extension of its *monopoly*. "The Bank will remain," says the letter, "a chartered corporation for carrying on the business of banking ; and in that character they will, we trust, always continue to be the sole bankers of the

state;" but, on the other hand, it continues, "with respect to the extension of the term of their exclusive privileges in the metropolis and its neighbourhood, *it is obvious, from what has passed before, that Parliament will never agree to it.*"

This, then, was the principle laid down in 1826, evidently suggested by the general conviction which had been expressed in Parliament of its policy, adopted by the Government of the day without reserve, and confirmed by the unanimous concurrence of public opinion. It was, indeed, the public understanding, upon the question of the Bank Charter, that the absurd and mischievous regulation which prohibits the establishment of other public banking companies to compete with the Bank of England, should not be re-enacted. It was the settled expectation in the public mind, that a law which, in the words of the First Lord of the Treasury and the Chancellor of the Exchequer, professedly speaking the sentiments of Parliament on the subject, "permitted every description of banking, *except that* which is *solid and secure,*" would not again, after the expiration of the Bank Charter, be inflicted on "the metropolis and its neighbourhood." And yet, in 1833, we find the Bank Charter renewed in this particular!

Now, to what cause are we to attribute this strange inconsistency? In 1832 a committee was appointed, of thirty-three members of the House of Commons, to inquire, preparatory to the re-construction of the Bank Charter, into the merits of a *free competition* in banking; for that was the gist of their instructions; and, after collecting "more or less information on this and some collateral points, on none of them was it so complete as to justify them in giving a decided opinion! The period of the session at which they commenced their labours, the importance and extent of the subject, and the approaching close of the session, sufficiently accounted to the House for the limited progress of the inquiry, and the incompleteness of the materials they had collected, for forming an opinion!" This was the substance of the Report of the Committee—a confession of their total incompetence, without a more effective inquiry, to come to a decision upon the subject. And what was the course which

the Government adopted upon this Report? A further and more complete investigation? Quite the reverse! The committee perfectly satisfied Lord Althorp, though they had not been able to satisfy themselves. "Though the committee," he said, "did not conclude their examinations, yet such had been the extent of the inquiry into which they entered, as to make him think that the subject had been sufficiently sifted, and, therefore, that it was not desirable that the committee should be renewed!" Again, though the committee complained that they had neither sufficient time nor materials to justify them in expressing an opinion, his lordship had by some means come by an assurance, that the information given to the committee, with respect to the management of the Bank, had changed the opinion of those who had heretofore been adverse to the Bank, but who had become more favourably inclined to it since the inquiry. Nothing could be more loose and irregular than all this; but something must be done, and that quickly. The session was fast drawing to a close; the committee had left the question as they found it; Lord Althorp was anxious to do the same, and the obnoxious monopoly, which seven years before had been condemned by the Legislature, was again renewed by a large Ministerial majority, from the sheer necessity of consenting to it in the absence of any measure being proposed, or any principle established, for substituting a better system in its stead.

And thus we shall continue to go on without any prospect of amendment, until the Legislature is sensible of the error of neglecting to *inquire* until it is time to *decide*. Such inquiries should be directed, indeed, not so much to the concoction of specific measures, as to detect general principles; and hence should be prosecuted in times of leisure and quiet, and not under the spur of necessity, or the excitement of temporary difficulties. Besides, a statesman should encourage them, not only as legislative helps, but as the means of public instruction. No great principle was ever yet carried into operation, until it had been long and well discussed in the public mind. The knowledge which Parliamentary committees are the instruments of furnishing to the public, re-acts upon the Legislature. If a committee cannot

draw any useful conclusions from the materials they have collected, it does not follow that a nation may not do so; twenty-four millions of people may supply what thirty-three members of a committee may be unequal to; and it is only by throwing open these intricate questions to the public, and affording time for the discussion of them, that a right decision is ever arrived at, and we trust another session will not pass over without this being effectually done.

CHAPTER II.

INTRODUCTION.

THIS chapter consists of four articles.

The *first* shows the value of the joint-stock banks to the country, which they have saved from that continued paralysis that followed the pressure and panic of 1825.

The *second* exhibits the unconstitutional and unwarrantable hostility of the Bank of England to these institutions, which not only calls for the combined resistance of the joint-stock banks, but for the interposition of the Legislature.

The *third* exhibits the same unfair hostility by Mr. Macculloch, in the *Edinburgh Review*; and

The *fourth* points out the absurd manner in which the circulation of London is secured to the Bank of England; the nature of its dispute with the London and Westminster Bank; the impolicy of that dispute, and the manner in which the legal triumph of the Bank may be, and has been, effectually defeated.

ARTICLE I.—TENDENCY OF THE JOINT-STOCK BANKS TO KEEP UP THE CURRENCY FROM BEING DRIVEN IN BY PRESSURE.
—SEPTEMBER 2, 1837.

The accounts which have appeared in the *Economist*, during the last few weeks, upon “the State of Trade,” indicate a manifest tendency to revival; and the communication which we

received last week from our intelligent correspondent on the "*Iron Trade*," confirms the impression. We wish, however, that he would favour us with his ideas as to the *source* of the improved demand for iron; for it would be useful to know whether it has arisen from any especial circumstance, or from the industry of the country at large being again furnished with employment.

With respect to America, we apprehend that her demand for our goods for her own consumption has been suspended; and it is the opinion of gentlemen most largely connected with the American trade, that it will not be revived before next year. Every man in America has been made, by the "currency measures" of General Jackson, to feel himself unaccountably poor; and the consumption of luxuries and comforts is thereby so much restricted, that it is thought that the stock in hand will be made to satisfy the demand for our manufactures from that country, for twelve months to come. An exception may perhaps apply to the materials required for railroads; for the depreciation of *labour*, consequent upon such a crisis, will undoubtedly stimulate the numerous railway companies established in America to take advantage of its cheapness.

Nevertheless, we do not fear that the aggregate demand for our manufactures will be found to fall off so seriously as it has done in previous emergencies of the same character. There is this difference between the pressure of the present year and the panic of 1825, that our banking system is vastly improved in confidence and strength. It will be seen, by the following table, how the circulation was driven in by the panic of 1825:—

Table of the amount of Stamps issued to country bankers in 1824, 1825, and 1826.

Year 1824.....	£4,227,070
1825.....	5,224,313
1826.....	1,297,270

As a happy contrast to the effect of this panic upon the circulation, the table which we inserted the week before last deserves repeating:—

“Circulation of Private and Joint-Stock Banks—on the average of three months—

Ending.	Private.	Joint-Stock.	Total.
1836—June ...	£8,614,000 ...	£3,588,000 ...	£12,202,000
Sept. ...	7,765,000 ...	3,969,000 ...	11,734,000
Dec. ...	7,753,000 ...	4,258,000 ...	12,012,000
1837—March ..	7,279,000 ...	3,751,000 ...	11,031,000
June ...	7,188,000 ...	3,684,000 ...	10,872,000

We here see, that, notwithstanding the recent *pressure*, the joint-stock banks have been able to *keep up* their own circulation, as well as prevent that of the private banks from being much depressed. It would require a separate article to develop how this has been unconsciously, as well as effectively, done by the joint-stock banks. It is a corrective tendency in the very nature of them. At present, we are only desirous of calling attention to the fact, that the circulation having been kept comparatively steady, the *home demand* not only remains steady likewise, but is endued with a capability to take advantage of the cheapness consequent upon the slackness of the *foreign demand*. Hence we find a consolatory reason to hope that the trade will not suffer the continued paralysis which it did after the pressure of 1825; and the merit is solely due to the establishment of joint-stock banks. Not that the joint-stock banks have merely a capricious power of conferring this benefit upon the country: they are, as we have already said, the natural but unconscious agents in such emergencies. Superficial observers talk and argue as if a bank could increase its issues at pleasure, whereas there is actually as great a difficulty in raising the circulation up to its proper level, after it has unduly dropped from it, as there is in *lifting up a heavy body which has fallen*. It is the public which do it, and not the banks. The Bank of England, indeed, is the only bank in the country which has the power of enlarging its issues at pleasure: the rest of the banks do not perceive, much less direct, the principles upon which their circulation oscillates; this fact only being obvious, that the oscillation is less with joint-stock banks than with private banks, and more especially in periods of pressure, when the private bank circulation appears invariably to

give way, even without panic. On the present occasion, the circulation *en masse* has been held up by the firmness of the joint-stock banks; and to this must be exclusively attributed the prospects which we have been led to entertain, of a revival of our trade, manufactures, and commerce.

ARTICLE II.—THE BANK OF ENGLAND AND JOINT-STOCK BANKS.
—JUNE 3, 1837.

It is a conventional maxim of English government, that all delegated power is to be exercised for the benefit of the public, and not for the indulgence of individual interest or caprice. The public functionary, who abuses his official opportunities to the detriment of others, or his own advantage, is guilty of constructive treason against the moral spirit of the constitution. There is, moreover, another condition attached to every delegation of power in this country—namely, that it is not legislative nor arbitrary, but simply executive. Laws are made; and administrative powers are merely bestowed for the purpose of carrying them into effect. Tried by these tests, the Bank of England earns our daily condemnation. The disastrous panic of 1825 induced the Legislature to pass a law for the encouragement of joint-stock banks. The Bank of England struggled against the passing of the law; but it became law, and it was the duty of the Bank cordially to assist in the working of it. The power of doing so was left in her hands, not that she might consult her own feelings, or calculate her own profit and loss in the matter, but under the presumption that she would lend her honest aid to forward the great experiment which the Legislature had in view. And what has the Bank done? She has not only not lent her aid to fulfil the law—she has done every thing within the compass of her means to defeat it. We look not to her timid speculations, but to her deeds, for an indication of the policy which she pursues. It is not, perhaps, so easy to detect it from her own management in London; but in the management of her branches it is necessary to reduce it to express rules; and the following are those acted upon by her branch at Birmingham:—

1. The Bank of England will not receive to the account of a customer having a cash account with them the notes of a joint-stock bank, or cheques drawn on a joint-stock bank of issue. But cheques on private bankers, or the notes of *private* bankers, they receive as cash.

2. They refuse to discount any bill having the indorsement of a joint-stock bank of issue.

3. The Bank of England refuse to discount any bill made payable at the *London and Westminster Bank*, although the drawer and acceptor be both unexceptionable. They will discount bills made payable at any other, that is, at any *private*, bank in London.

It is needless to explain, or argue upon, such regulations as these. They are as monstrous and staring abuses of the power vested in the Bank as the most vindictive jealousy could have devised for her. She will not touch a note issued by a joint-stock bank—she will not discount a bill that has the name of one upon its back—she will not even allow her porter to present a bill to one for payment! A joint-stock bank is her abomination; and all the discredit, and every obstacle she can inflict upon the object of timid dislike, she does so, without the least compunction, either as to the individual wrong, or the public injury. Her object is to drive people to the private bankers, and keep them away from joint-stock banks; and, perhaps, she could not elucidate it better than by her petty conduct towards the London and Westminster Bank. No body of men did ever so violate a public trust for the gratification of their own private feelings. It was hardly necessary that Mr. Palmer should inform us of his presentiment, that the existence of joint-stock banks and the Bank of England will be found incompatible.

Self-preservation is never very scrupulous as to the means it employs; and the Bank in this manner betrays the spirit of her policy. She may be right or wrong in her apprehensions; but can the Legislature quietly allow her to play such wanton freaks with the commercial prosperity of the country—to interrupt the natural stream of business—to raise impediments—to create inconveniences—to be, in short, a stumbling-stone in our way, merely for her own selfish purposes? Her attempt to defeat the

law of 1836 calls loudly for Parliamentary interposition ; and the visitation of her sin should be no less than the withdrawal of those privileges with which she was endowed for the public good, but which she is constantly perverting, to the public detriment. It is the duty of the joint-stock banks—not only to themselves but the country—to tolerate the caprices of the Bank no longer. It would be wise that they took some immediate steps to get rid of such vexatious impertinences. They are worse than injuries, inasmuch as they are insults too. The joint-stock banks, as a *body*, are far stronger than the Bank of England ; but to assert their strength successfully they must act as a *body*. The Bank is only despotic from her concentration ; and the joint-stock banks, if concentrated also, would find no difficulty in lowering her omnipotence. What they have hitherto wanted is a *point of union* ; and that being secured, we trust that time is not distant when their power will be sufficiently felt for their own protection.

ARTICLE III.—MR. MACULLOCH *v.* THE JOINT-STOCK BANKS.—
MAY 20, 1837.

Perhaps no man has written more, or been read more, as a political economist than Mr. Maculloch. What with dictionaries and encyclopædias, the *Edinburgh Review*, and the *Courier*, one would imagine that he could have but little time or attention to spare ; and yet to all these occupations he superadds another in the same line ; namely, of supplying scientific advice to the Bank of England direction. Now, amongst men of mind, Mr. Maculloch ranks as an amusing but not an instructive writer, and therefore carries with him very little weight or authority as a reasoner. But as the political economist of the Bank of England, the case is different. In this capacity whatever opinion he expresses is important ; and it is equally so to the country to be assured that he is well qualified for the high mentorship which the Bank have conferred upon him.*

* It gives us great pleasure to find that Mr. Maculloch has obtained a valuable appointment from the Government—an appointment which, we believe, will give general satisfaction. We are opposed to Mr. Maculloch's opinions ; but this, we trust, is not incompatible with the best wishes for his personal welfare.

Mr. Maculloch, as we have already allowed, is a very entertaining writer; but he is neither a man of business nor a philosopher. He indulges, too, in a loose manner in dealing with facts, by which they are so twisted from their proper bearing, that an ill-natured opponent would be inclined to accuse him of intentional distortion. His article on "the Bank of England and the Country Banks," in the last number of the *Edinburgh Review*, affords several specimens of such provoking ingenuity. We will instance only one. The gist of the article is, that the late pressure upon the money market may be indirectly traced to the existence of joint-stock banks. "It appears," says he, "that the issues of the joint-stock banks have been increased between the 26th of December, 1835, and the 31st of December, 1836, from 2,799,551*l.* to 4,258,197*l.*, being an increase of 1,458,646*l.*, or of above fifty per cent.!" The insinuation against the joint-stock banks in this paragraph is, that by increasing their issues fifty per cent., they forced an *additional* issue into the currency of the country, sufficient to turn the exchanges, and produce all the embarrassment which has afflicted the money market during the last six or eight months. Now, when Mr. Maculloch wrote down that the circulation of the joint-stock banks had increased fifty per cent., he wrote down the truth—but he did not write down the *whole* truth. He ought to have told his readers that the increase had arisen, not from the addition they had made to the currency of the country, but chiefly from their taking up the circulation of about fifty private banks which had merged into them in the course of 1836. That the embarrassment of the money market, even on his own principles, is not to be traced to any operations of the joint-stock banks, is evident from the fact which his own table proves, namely, that the aggregate circulation of the country banks, private and joint-stock together, had, in the period selected, increased, not *fifty*, but only *eight* per cent. ! Mr. Maculloch, we repeat, ought to have told his readers this part of the story also; and it is difficult to find an apology for the omission. The misrepresentation was originally a blunder of the joint-stock bank committee, who are inquiring into these matters; but a blunder wilfully perpetrated is, to say the least of it, disingenuous towards his readers. And we are inclined to think that Mr. Maculloch, in general, is read with more pleasure than confidence.

ARTICLE IV.—THE BANK OF ENGLAND *v.* LONDON AND WESTMINSTER BANK.—JULY 13, 1837.

The practical object contemplated by the Legislature, in giving exclusive privileges to the Bank of England, was to render her notes the sole circulation of the metropolis. The indirect mode by which this has been achieved, is one of the most absurd pieces of contrivance that could possibly have been devised. Instead of enacting at once that no other notes should circulate in London, the Legislature merely prohibited the issue of notes by any bank within a given distance from it which has more than six partners,—in a word, by any joint-stock bank in London. The Bank of England has, certainly, by these means, virtually secured the monopoly of the metropolitan circulation. Private banks are the only banks allowed to compete with her; but in consequence of the extent of their property being so little known to the public at large, whatever it may be to their more intimate connexions, no private bank that issued notes in London would be safe for twenty-four hours against a run for their payment by the public, which always leads to a run by the depositors. By this means they are likewise effectually prevented from interfering with the London circulation. Whenever, however, an object is arrived at by an indirect course of this kind, we meet with many casual inconveniences by the way, the consequences of which are permanently felt. Even the most scrupulous declarations of law are frequently of ambiguous interpretation; but when the law is an ambiguity itself, *saying one thing, and meaning another*, then is the door thrown wide open for that spirit of strife and encroachment, to which is owing the long-pending dispute between the London and Westminster Bank and the Bank of England. The terms in which the privileges of the Bank of England are conferred on it run as follows:—

“ Be it therefore declared and enacted, that any body politic or corporate, or society, or company, or partnership, although consisting of more than six persons, may carry on the trade or business of banking in London, or within sixty-five miles thereof,

provided that such body politic or corporate, or society, or company, or partnership, do not borrow, owe, or take up in England any sum or sums of money on their bills or notes payable on demand, or at any less time than six months from the borrowing thereof, during the continuance of the privileges granted by this Act to the said Governor and Company of the Bank of England."

Now, the London and Westminster Bank does not attempt to do what it was the real and only object of the above clause to prohibit it from doing. It does not issue notes; but, acting as agent for country banks, it accepts bills drawn upon it on their account; and even this the letter of the law obliquely reaches as a violation of the Charter. As a question for the consideration of the Bank Directors, on the part of their own shareholders, nothing could more forcibly evince their want of sound judgment and foresight, than their conduct in this business. Generally, our complaint against the Bank Directors is, that they take too much care of their shareholders at the expense of the public; but, in this instance, we blame them for sacrificing the substantial interests of the shareholders to a shadow. It is true that the London and Westminster Bank is a company of first-rate importance; that its Directors are collectively as respectable a body as the Bank Direction themselves; and we do not deny that the success of so young, but so vigorous, a company, is calculated to excite a little jealousy in one so much older, and so unaccustomed to a rival, as the Bank of England; but the Directors of the latter should, in prudence, have refrained from indulging, or at least from exhibiting, any feeling of the kind, to the future prejudice of the proprietors they represent. For what has the Bank of England to gain, or what to lose, by the question they have raised? They do not accept bills for country bankers,—they do not gain a penny by preventing the London and Westminster Bank from accepting them,—while, on the other hand, by their litigious proceedings, they are holding up to the public (already sufficiently impatient of their domination) the extreme folly of the Act by which their monopoly is granted to them, and the impropriety of entrusting power in the hands of men capable of abusing it, for the mere gratification of playing the dog in the manger. A victory by the Bank in such a suit is one of the

greatest misfortunes that could have befallen them. It is one of the *vota diis exaudita malignis*—one of those attempts, suggested by a combination of bad judgment and evil intention, of which its success is its punishment. It is the policy of the Bank to conceal its power to do mischief, and not to be perpetually displaying it.

The question between the Bank of England and the London and Westminster Bank is now, by appeal, before the House of Lords. In all probability, the decision of the judges will be there confirmed; and assuming, therefore, that the Bank will ultimately gain her end, what course should the country banks adopt to counteract her? With a view to the solution of this point, we call attention to a sensible letter, by a “Bank Manager,” which offers a variety of suggestions on the subject. But the obvious course is, that which has already been pursued by the NATIONAL PROVINCIAL BANK. This bank has an account with the LONDON JOINT-STOCK BANK, on behalf of several of its branches, which, however, do not draw upon that bank for acceptance, but merely make their bills payable at it, which is found to answer the purpose equally well. The same thing is, in fact, done by the Bank of England itself, in its agency for the Bank of Ireland. The following is a copy of a note drawn by the Bank of Ireland, payable in this manner:—

YOUGHAL OFFICE OF THE BANK OF IRELAND.

No. 163. £70.

23d May, 1837.

Twenty-one days after date pay (without acceptance) to Mr. Henry Forrester, or order, Seventy Pounds Sterling, value received.

To the Cashiers of the
Bank of England,
London.

For the Governor and
Co. of the Bank of
Ireland.

J. BARNES.

(Signed) THOS. JOHN.

5 | 3259

It is pretty evident that this bill, drawn by the Bank of Ireland, and made payable at the Bank of England, is just as good to the parties holding it, as if the Bank of England had accepted

it. The only advantage of a bill being accepted is, to render its payment more secure and certain; and when the acceptance is not necessary for this purpose, it is not necessary at all. The habit of accepting bills in London has grown out of the weakness of the private bank system. Bankers' bills are employed as remittances from one part of the kingdom to another; but, as the credit of private country banks is rarely known much beyond the sphere of their own business, these bills, unless accepted by some well-known house in London, would not pass current. But with joint-stock banks, this is unnecessary. People will readily take their bills, payable in London, without acceptance, when usage has reconciled them to what is a mere change in form. Indeed, the public would much sooner take a bill drawn upon London by a joint-stock bank, without acceptance, than a bill with acceptance, drawn by one private banker in the country, and accepted by another private banker in London; and it is, therefore, a great folly in joint-stock banks continuing to trouble themselves with getting their bills accepted, as they have done hitherto. Without the slightest benefit to their customers, it occasions them expense and inconvenience, which might well be avoided; for they have not only to provide for such bills when they become due, but to make a sort of provision for them before acceptance, by placing other bills of exchange in the hands of their London banker, as security; which bills, in the practice of business, it is desirable that they should keep under their own eyes. The course, then, for the joint-stock banks to pursue is, to make their bills payable at the London and Westminster Bank, or some other joint-stock or private bank, without acceptance; and the hostility of the Bank of England, in this respect, would be effectually defeated. Besides, a joint-stock bank, which is indebted to a private bank for the acceptance of its bills, places itself in a state of uncomfortable thralldom. The private bankers are the natural allies of the Bank of England, and must obey the impulses communicated from it; and there are not a few joint-stock banks who were taught, by the late crisis, the awkwardness of being liable, at such periods, to the interference of a private banker in the management of their affairs. In being able to circulate bills without acceptance, the

joint-stock banks will certainly have an advantage over the private banker; but it is a legitimate one, due to their superiority of capital and credit, and it is just as legitimate that they should exercise and enjoy all the benefits of it.

Note.—The Bank of England, in gaining their suit, did not do the London and Westminster Bank the least injury, for every connexion they had immediately drew upon them in the manner recommended in the above article.

CHAPTER III.

INTRODUCTION.

THIS chapter contains three articles.

The *first* shows that the situation of the Northern and Central Bank of England after its stoppage affords one of the best evidences in favour of the joint-stock system of banking that could be offered.

And the *other two* endeavour to establish those principles of public honour and private integrity which, for the interests of the banks and the well-being of society, should distinguish gentlemen who are placed in the situation of Directors.

ARTICLE I.—THE STATE OF THE NORTHERN AND CENTRAL BANK OF ENGLAND A PROOF OF THE SOUNDNESS OF THE JOINT-STOCK SYSTEM.—SEPTEMBER 9, 1837.

In our third page will be found the proceedings of a general meeting of the shareholders of the Northern and Central Bank, and the report of the directors upon the state of its affairs. Nothing has been so beneficial to the cause and character of joint-stock banking as the reports which have been published during the last three months in the *Economist*, and which individually and collectively reflect the highest credit upon the managers and directors from whom they emanated. But of all the reports to be found in the pages of the *Economist*, there is none which speaks more for the *principle* of joint-stock banking than that to which we now refer. The Northern and Central Bank started at

a period of great commercial activity and successful adventure; and possessing a large capital and extensive credit, and outbidding all its competitors in the extent of accommodation it afforded to the enterprise of the country, ran wildly into a business much beyond the limits of prudential banking. This is a fact generally admitted by themselves; and when we consider that the directors, for the most part, were gentlemen having great commercial concerns of their own, and in the habit of drawing very largely upon the bank for accommodation themselves, and therefore not in a position to deny it, with any consistency, to others, we can hardly wonder that they involved the bank in transactions of the description we have stated. While the bank was thus going before the wind, it was suddenly taken aback. It was compelled instantly to stop payment, and to withdraw from its customers the accommodation which it had hitherto afforded, and which they could not elsewhere obtain. Superadded to this, the trade which their customers had been carrying on with great success, became a losing one; and, reflecting that the stoppage of the usual accommodation by a bank must, even in the most auspicious times, ruin parties who were trading upon banking credit, this latter circumstance would seem to render the almost universal bankruptcy of its connexions inevitable; yet, with all this combination of unfavourable circumstances, what has been the result? It appears to be, that out of a paid-up capital of 800,000*l.*, upwards of 685,000*l.* will be realized. In this estimate, moreover, there is no room for self-deception. Parties are not in this instance carried on by the bank in *hopes* of ultimately making good this balance; but they have been brought to a stand, and they must either pay in full or pay what they can, and the estimate is formed upon what they can pay; assuming, as stated, the utmost probable loss in each case: the parties being intent upon making no estimate that should not be amply realised.

Now the case of the Northern and Central Bank is considered to be the worst specimen of joint-stock banking which England has presented, and we therefore here see it in its worst form, and under the most unlucky and untoward circumstances. Yet the result merely is that the shareholders have lost 15 instead of

making 50 per cent., the premium on the shares, when the bank stopped payment; and the public have neither lost nor suffered inconvenience by it.

The principle of the system must not only be a sound, but a very powerful one, which is able to bear it up against such a complication of internal and external disadvantages. And there is another consideration. If this bank had not been compelled by the conduct of the Bank of England to break its own customers, but had been allowed to go on, accumulating the large profits its business generally yielded it, and to have spread any losses it did incur over a series of years, it is a question whether, in the first place, it would have made the losses it did; and, in the second place, whether its losses, whatever they might have been, would have been seriously felt by it. For our own parts, we are convinced that the Northern and Central Bank principally owe their great misfortunes to the improper conduct of the Bank of England, as we shall take another opportunity of explaining; and had the personal conduct of the directors of the Northern and Central Bank not turned public attention from the conduct of the Bank of England to themselves, this we are persuaded would ere this have been discovered.

ARTICLE II.—IMPROPER CONDUCT OF THE DIRECTORS TOWARDS AN INDIVIDUAL WHICH THEY MUST HAVE MISTAKEN FOR HONESTY.—SEPTEMBER 9, 1837.

We observe that at the meeting of the shareholders of the Northern and Central Bank, a letter was read from Mr. Cassels, their late manager in London, complaining of the treatment he had experienced from the directors. The real point at issue between them, we believe to be this,—that Mr. Cassels was taken by the company from a situation in Scotland, with an understanding, though, perhaps, with no legal security, that the engagement was for five years; and he was dismissed at three months' notice. That there may have been some personal feeling between the directors and Mr. Cassels, is possible; because

there are always elements of dispute between parties engaged in a losing concern ; but that Mr. Cassels was responsible for the mismanagement of the bank, he being resident in London, is not very probable ; and he certainly bears the character of a gentleman of great intelligence and integrity ; so much so, that the directors of the Bank of England, at a time when they were said to have expressed much, though perhaps unmerited, distrust of the directors of the Northern and Central Bank, placed a very unlimited confidence in Mr. Cassels—much greater, indeed, than is usually placed in an individual. We apprehend, therefore, that there has been nothing in the conduct of Mr. Cassels to justify this behaviour of the directors towards him, but that it has arisen from their desire to get rid of an expensive agent, for whom they had no employment, with a view to save the money of their shareholders. And if this be their view, we cannot but think that they have mistaken the character of the shareholders they represent ; for we do not believe that any body of persons in this country embark in a public undertaking, with an expectation or desire of succeeding by any means incompatible with the most honourable fulfilment of every engagement made on their behalf ; and that, not by taking advantage of any verbal omissions or legal deficiencies, but by adopting that course which an equitable construction of language and circumstances would suggest. There are many men who, through life, have never thought of paying a debt, which either the law or a sense of decency did not compel them to pay, and who would make it a point of principle to do for others the same as they would do for themselves ; and it frequently happens, moreover, that those gentlemen in the direction who possess higher notions of integrity, allow themselves to be influenced by such parties, from a presumption that they are only rigidly adhering to their duty. The consequence is, that Boards of Directors frequently do things which many of them would be very unwilling to have attributed to them individually. This may be the case in the instance before us ; but we hold every director to be morally responsible for the conduct of the board, in questions of personal integrity ; and if the conduct of the board is such as he cannot approve, he ought not to continue to it the sanction of his name. If he does so, he is

guilty of a public injury, by lending his respectability to cover a private wrong ; and is therefore *doubly* to be blamed. Nor is the frequency of such conduct on the part of directors any apology for it. However, the course which the shareholders have adopted in Mr. Cassels' case is the proper one. They have referred it to a committee, with a view of submitting any question between Mr. Cassels and the bank to arbitration.

ARTICLE III.—FURTHER OBJECTIONABLE CONDUCT OF THE DIRECTORS, AND THE CONSEQUENCES TO WHICH SUCH CONDUCT MUST LEAD IF GENERALLY ADOPTED.—SEPTEMBER 16, 1837.

One of the greatest advantages which this country possesses over most others, is the power of a body of persons combining to carry on operations which are beyond the means of individual capital. This arises from the confidence which is here reposed in gentlemen, who, from their station in life, are considered fit persons to be entrusted with the management of such concerns. Nor is that confidence of a narrow or limited nature ; for the only bond imposed upon them is that of their own honour, it being impossible to confine them by the restrictions of law. On the other hand, not only does the welfare of the country require that these trusts should be honestly performed, in order that the confidence, which is the parent of these public undertakings, should be sustained ; but the example of gentlemen placed in such a position before the world, becomes important, from the moral influence which it exercises upon society. How the directors of the Northern and Central Bank have acted up to these principles, we have not sufficient materials fully to decide ; and we are not willing to condemn without ample grounds for pronouncing against them. With respect, however, to our *impressions*, they take their complexion, of course, from the individual acts which have come before us ;* and in an early number of the *Economist*, we were led to comment upon the fact, that, when they made an arrangement for

* These articles were written some time before the publication of the report of the Committee of the House of Commons, who investigated the conduct of the Directors.

opening an account with the London and Westminster Bank, they obtained for *themselves* two thousand shares in that bank at par, the shares being at a premium. These shares, most assuredly, were not *given* as a bribe, and we do not mean to say that they were *taken* as one. We do not, indeed, doubt that they made a better bargain for their proprietary, with the London and Westminster Bank, than they could have done with any other ; but the transaction, nevertheless, in our opinion, exhibited a want of that delicate integrity which ought to distinguish gentlemen in their situation, and which would not only have ensured their honesty, but have secured them from suspicion. A similar want of right feeling appears to pervade their conduct towards Mr. Cassels. A letter from that gentleman, to the shareholders of the Northern and Central Bank, will be found in a preceding column, in which he complains of the directors having endeavoured to evade an unanimous resolution of the shareholders at the late meeting respecting his dispute with them. The case we believe to be this : Mr. Cassels understanding that it was not the intention of the directors to continue him in his late situation, and they having appointed another person to the situation he originally held, he felt this an implied censure upon his conduct ; and having been moreover accused at a public meeting of a share in the mismanagement of the bank, felt it necessary to clear himself from the imputation. His future living, indeed, depended on it. With this view he first applied to the directors to exonerate him ; and, on the directors declining to do so, he intimated that, being in possession of the correspondence between them and himself, he should be compelled to publish as much of it as was necessary for his justification. The directors then obtained an injunction to prevent him from taking this step. That such an injunction can be eventually sustained we do not for a moment believe ; but, nevertheless, we hold it to be very wrong and very cruel in the directors to employ the money of the shareholders in a Chancery suit against an individual, to restrain him from defending his character, which Mr. Cassels states can be done without the least injury to the bank or the shareholders. In order to supersede the necessity of further proceedings in Chancery, Mr. Greig, at the last meeting, moved for the appointment of a committee to inquire into the

circumstances of the whole case between Mr. Cassels and the directors ; and Messrs. Wilson, Gill, Haynes, Rawson, and Cardwell, were unanimously chosen for that purpose. It seems, however, by Mr. Cassels' letter, that, on applying to the solicitor of the bank for a copy of the minute appointing this committee, he was informed that the directors held him equally bound not to communicate their correspondence to the committee as to the public.

And thus it appears that the directors also employ the money of the bank against the shareholders themselves, to prevent them from obtaining from Mr. Cassels information about the bank, which they have unanimously appointed a committee to receive. Now this course of proceeding is doubly objectionable ; for it cannot be held otherwise than an act of oppression towards Mr. Cassels, their servant, and, at the same time, an act of insubordination towards the shareholders, their masters. If the directors had entertained any objection to the appointment of such a committee, they ought to have stated it at the public meeting, and not to have allowed the resolution to be unanimously passed, and then endeavour to defeat it. Besides, it is treating the committee with great contempt to suppose, that if there were any thing in the correspondence to be produced which ought not to be published, they were unfit to be intrusted with it. There ought to be nothing in the affairs of a bank, more especially in one that has ceased business, which might not be communicated to a committee so appointed—remembering that the very reason for appointing them to inspect the documents in Mr. Cassels' possession was, that any improper publicity would be thereby prevented. It is probable that the directors may have a legal advantage over the shareholders, and may evade with impunity the resolution which they passed. But if they should set such an example, and the repetition of it was at all likely to be encouraged by the success which attended it, one of two things would certainly happen. Either the legislature, to prevent such abuses, would be obliged to enact regulations for the conduct of directors, which would fetter and embarrass the management of joint-stock banks, without any benefit to the shareholders ; or the public would cease to intrust their money to persons over whom they could exercise neither legal nor moral control.

CHAPTER IV.

INTRODUCTION.

THIS chapter contains three articles.

The *first* explains the nature and advantage to this country of the business of the American houses, and the very ridiculous principles on which their credit was assailed by the Bank of England, who endeavoured to prevent their shipping goods to America, under the impression that they were shipping gold, and that the Bank could prevent the exportation of gold to America by discrediting their paper.

The *second* describes the position of the American houses previous to their stopping payment, and urges the Bank to prevent this result for the sake of the trade of the country; and

The *third* condemns the Bank for allowing them to stop, both on account of its folly and its injustice.

ARTICLE I.—NATURE OF THE BUSINESS OF THE AMERICAN HOUSES, AND THE ABSURD CONDUCT OF THE BANK OF ENGLAND IN DISCREDITING THEIR BILLS.—APRIL 15, 1837.

Much has been said, and very little understood, on the subject of the American houses who have lately been induced to obtain assistance from the Bank of England to support their business and credit; the following statement, therefore, may perhaps serve to put the subject in a clearer point of view:—

Some time ago, our manufacturers and merchants were accustomed to ship their goods to America upon a term of credit frequently extending to twelve months, for which the Americans

paid a corresponding profit in the increased price of the goods. But the trade has now assumed a different and more economical form, by which our goods are brought to the American market upon more reasonable terms. There are at present many houses in England who have partners or agents in America, and the American merchant, wishing to order goods from England, arranges with these parties as follows :—He pays into their hands ten or twenty per cent. as may be agreed upon, of the amount of the goods he intends to order, and obtains authority to draw, or cause to be drawn, upon the house in England, bills at four months, for the amount of the goods purchased ;—he then either comes himself to England, or sends his orders to some agent, to make his purchases for him. The goods being purchased and drawn for, are shipped to America ; not to the American merchant, but to the partner or agent of the house who has accepted the bill for them, and he turns them over to the American merchant, upon receiving good bills upon London for the balance, over and above the sum first deposited ; and should the American merchant not fulfil his contract, the London house is at liberty to sell the goods and pay themselves, charging the loss to the American merchant. Four months, the dates at which the bills are drawn for the goods, is found, generally speaking, sufficient to enable the house in England to receive the remittance from America in ample time to meet the payment of them ; while the acceptances at that date of houses of undoubted credit, enable the American merchant to go to market upon the very best terms ; and by that means, our manufactures obtain an advantage over those of other countries where the same facilities do not exist. This is the principle of the trade ; but, of course, houses of great capital and credit, and of established punctuality in their dealings, are not always required to make a deposit ; yet, we believe, in such cases, very few, if any, instances of loss have ever occurred.

There is also another mode adopted by the American houses of larger property, more especially when they want to establish a credit for other purposes than importing goods from England. They place in the hands of the agents or partners of the English houses, available securities for the amount of the credit they desire to establish, authorising them to dispose of such securities in

event of their not supplying the funds requisite to meet the payment of the credit at the proper time. These available securities chiefly consist of shares in banks, and other joint-stock undertakings, which, for want of public funds, are the Exchequer bills of America.*

In this trade, as in every other where great credit is required, there are some half-dozen houses that have a preference; just as in the City there are half-a-dozen houses in the banking trade that have more country banks draw upon them than any other. And these half-dozen houses in the American trade, having a preference over the rest, are the more safe on that account, because a great business produces great profits, and the accumulation of great profits produces great capital and security.

As these houses had thus to make the chief payments of the trade of America, they must necessarily have had a great amount of bills drawn upon them; and as the remittances to meet these payments consisted of other bills, it might be inferred that they would have large amounts to discount. The fact, however, is, that they rarely discounted with the Bank of England; and we believe the indorsation of most of them was as rarely seen in the discount market; they managed their trade so as to require, comparatively speaking, so little assistance, as to be able to obtain it without applying openly to the discount brokers, as is now the general practice of merchants. They are charged with overtrading; but this is not an evidence of it; and it is difficult in banking, to which their trade is confined, to say what *is* overtrading, where the transactions are safe and the payments regular.

It follows as a consequence of their doing the other monetary transactions of America, that when gold was exported to America they were the agents in exporting it; and some six months ago, when the balance of payments was in favour of America, the operations of these houses became obnoxious to the Bank of England; and with a view, as was supposed at the time, of checking

* It has subsequently appeared that these credits were chiefly given without security; but as they were given to persons of property, they have been productive of very little loss, whereas advances on goods to persons without property have been productive of loss, in consequence of the goods not realising the advance upon them.

the exportation of gold, the directors refused to discount bills drawn upon them.

They could not do this in London, because they had none offered them : the rate of discount at that time by the Bank of England was above the market rate, and the bills drawn on these houses could always be done on the most favourable terms. The Bank, however, has branches in the manufacturing districts, and discounts also to a great extent, upon low terms, for joint-stock companies, who issue their notes, and through these channels bills upon these houses found their way to the Bank, and they refused to receive them.

If the object of the Bank was to check the exportation of gold, independently of the absurdity of supposing that this could be done by the discredit of these houses, the Bank was particularly unfortunate, as by refusing the bills drawn from the manufacturing districts, they checked the exportation of goods instead of gold, which would have the effect of increasing the very evil they intended to cure : and, if they did not mean this, what did they mean ? for these bills were drawn by the first houses in the manufacturing districts, and came to them, for the most part, endorsed by the joint-stock banks, and were therefore, as bills, unquestionable. But, however inexplicable the conduct of the Bank, it was very injurious to these houses, inasmuch as no banker can venture to discount for or accommodate any house, whose bills the Bank of England might, in an emergency, refuse to take from them. And the directors being respectable men, and themselves merchants, were not supposed to have acted without some cause respecting the conduct of these houses, better understood by themselves than others. This limited, if it did not destroy, confidence in them ; and the balances kept in their hands by their American friends became materially reduced, and their resources proportionately diminished. Notwithstanding all this, they would probably have sustained themselves ; but, unfortunately, the prevalence of the east winds kept back the American packets, and five or six became due at one time.

The consequence of all this was, that these houses were eventually driven for some assistance to the Bank of England itself, and it was proposed that the Bank should appoint persons to ex-

amine into the situation of three of them. The result of this examination was, that these three houses, speaking in round numbers, possessed a million of capital amongst them ; that they were under acceptances to the extent of upwards of four millions ; that their business was entirely banking of the character just described, and that they had not amongst them twenty thousand pounds employed in speculation on their own account ; that, in short, their accounts were in the most admirable order, their business of the most legitimate character, and their transactions based, independently of their own credit, upon that of the most respectable houses both in England and America.

The result is, that the Bank of England are very desirous to undo what they have previously done, they will give them any assistance they may require, for their demands are very trifling compared with their engagements, and will discount their paper, for any party, to any extent. But it is frequently much more easy to do a mischief than to undo it.—Many a ruined manufacturer and starving artisan is now suffering from the check to the export trade of the country, which the proceedings of the Bank of England with respect to these houses have caused.

ARTICLE II.—THE BANK OF ENGLAND AND THE AMERICAN HOUSES.—MAY 27, 1837.

The situation of the American houses is one of peculiar hardship. As far as England is concerned, an universal stoppage of payment has taken place in America. If a merchant in New York has money in the hands of an American house in London, he dare not draw for it, because, though satisfied of ultimate payment, he is not sure that before his bill is presented for acceptance, the house may not have been compelled to stop, and the bill be returned upon him with charges of probably 20 per cent., besides the inconvenience of having otherwise to provide for it. Again, if a person who wishes to remit has the power of purchasing a bill, he will not do so, lest it may be returned to him dishonoured. Add to this that houses have been brought to

a stop in America, who have sixty shillings in the pound, and cannot realise or get in a dollar to pay with. And then, to render the embarrassment complete, those who *have* money can use it to so much better advantage in America, that they make the distresses of their neighbours a blind for their refusal to remit what they owe. Thus, from a combination of causes, true and pretended, a total stoppage of payments has taken place from America to England. In the mean time the American houses are under acceptances to manufacturers and others in this country to a large extent; and if they were allowed to stop, that sort of confusion which has taken place in America might be anticipated amongst numerous classes here; and, if once begun, who can tell where it will end?

The question, to prevent the possibility of this confusion, for the Bank of England is, ought she not to carry these houses through? In so doing the Bank may run some risk; but is it not a risk which it is her duty to run, under the untoward circumstances of a nation which is our largest customer stopping her payments to us? It is, indeed, virtually, one of the conditions of her charter, to protect the commerce of the country in emergencies like this. There would be no apology for it if such were not the case. But it is thought, nay, almost clearly ascertained, that the Bank would incur no risk, but that all the houses will prove more than solvent. One house, for instance, we know to have a capital of 400,000*l.*, and *cannot* lose more than 100,000*l.*; and we believe that the others will each have a considerable surplus. Under these persuasions it is supposed that the Bank has resolved to support the American houses; but the support ought not to be confined to mere aids of money. The conduct of the Bank ought to amount to such an avowal as would set the machinery once more in action; for the sooner it is known in America, as well as in the country, that these houses will not be allowed to stop, the sooner will things begin to go on in their proper course. The whole of this crisis, as far as England is concerned, has arisen from a failure of confidence and the credit which it creates and sustains, and this is what calls for restoration.

ARTICLE III.—STOPPAGE OF THE AMERICAN HOUSES.—

JUNE 3, 1837.

After several days of abortive deliberation, the Bank has allowed three of the great American houses, Messrs. Wilson and Co., Messrs. Wild and Co., and Messrs. Wiggan and Co., to stop payment. Considering that she never sees her way very clearly in times of trouble, the Bank was in a perplexing dilemma. If she assisted these houses effectually, there was a possibility of her losing a little money; and if she did *not* assist them, there was the certainty of her losing a good deal of character. The latter was the part of the alternative which she was not capable of properly estimating; whereas money is one of those palpable things which can be missed out of the pocket. Had she been wise in her generation, she would have perceived that the loss of a little money on such an occasion would have been a very great gain to her. In the end it would have repaid her a hundred-fold, for she would for the first time in her existence have done something to justify the power and privileges bestowed upon her. At present she cannot point out a single instance of her having served the public at her own expense, by way of apology for the continuance of her charter. She unfortunately shook off her madness for “saving the country,”*

* This expression refers to a former article, from which the following is an extract.

“To the Bank of England, as at present constituted, our hostility is unhesitating. Its duties are so utterly incompatible, that it cannot work otherwise than evil. The sooner it is reduced to its legitimate character,—namely, that of a bank only—and is divested of its almost legislative power over the currency, the sooner shall we cease to hear of the ‘pressures’ and ‘panics’ which periodically embarrass the country, puzzle the Government, and set the Bank itself at its wit’s-end. We beg, however, in this respect, not to be misapprehended. The hostility which we thus profess to the Bank, has no reference to the Directors individually: the question is not one of persons, but of a system. Besides, no one suspects that there was ever any thing intentionally wrong in the Bank management; so far from it, their self-satisfaction as to the propriety and wisdom of their own proceedings, at all times, and in all troubles, plainly evinces that they are not only incapable of devising mischief, but are quite unconscious when they have done it. They are always ‘saving the country;’ at least they imagine so; and that is presumptive at least that they do not injure it designedly. The declaration, however, of their present views, as put forth by Mr. Horsley Palmer, does not inspire us with any great confidence in their powers of salvation.”

just when there would have been a little method in it. Perhaps, on the whole, it is best for the country that she did so, for it is not desirable that she should have any claim upon its gratitude when the next day of reckoning arrives.

* * * *

It is clear that the original discredit of these houses was caused by the Bank, who certainly made one of the most ridiculous mistakes that a set of merchants could have committed. They were so thoroughly ignorant of the nature of the trade, as not to be aware that the bills upon these houses were chiefly drawn for goods exported, and refused to receive them at their branches, under the idea that, by so doing, they would check the exportation of gold. Now, if the interference of the Bank of England is never to take place, except for the purpose of ruining the trade of the country, the country will be no great length of time in discovering, if they have not done so already, that the Bank is little better than an intolerable nuisance, and nothing will bring the public more speedily and forcibly to this conclusion, than the mischievous derangement which the stoppage of these houses must cause; more especially in the manufacturing districts, already suffering almost beyond endurance from the consequences of the discredit so insanely inflicted upon them.

We have been informed that at one stage of the deliberation in the Bank parlour there were 17 out of 24 in favour of the American houses, and that the resolution unfavourable to them was ultimately carried, only by a majority of one against them.

CHAPTER V.

INTRODUCTION.

THIS chapter contains three articles.

The *first* proves, from the documentary evidence given by Mr. Maculloch, in the *Edinburgh Review*, as a proof of "over-trading in America," that there had been no over-trading at all.

The *second* exhibits Mr. Maculloch's inconsistency, in subsequently maintaining in the *Courier* opinions the opposite of those which he had set forth in the *Edinburgh Review*; and

The *third* shows that the United States were in a state of great and natural prosperity at the time that General Jackson commenced his rough handling of their currency; that he was the sole cause of the embarrassment in which his country became involved; and that his conduct was as unconstitutional as it was mischievous.

ARTICLE 1.—THE AMERICANS PROVED NOT TO HAVE OVER-TRADED, FROM DOCUMENTS FURNISHED BY MR. MACULLOCH IN THE "EDINBURGH REVIEW" AS A PROOF THAT THEY HAD OVER-TRADED.—AUGUST 5, 1837.

Various and important as are the objects to which the science of Political Economy applies, it is nevertheless a fact, that no author since the time of Smith has succeeded in producing a *work* upon it, which has been able so far to attract the notice, or bear the severity, of criticism, as to become a stock-piece in our national literature. Writers, indeed, upon Political Economy,

have universally* failed in the art of writing books to be read. Mr. Maculloch is no exception to the general rule; for none of his *compilations* have induced people to read, and much less stimulated them to think. The secret of his celebrity lies in his being an agreeable writer of *articles* upon such subjects, backed by the advantage of exerting his talents in the *Edinburgh Review*, and there being, moreover, no other Political Economist who, even in this secondary and subordinate walk, can captivate a reader, the theories which he broaches become important, not because he is a *great*, but because he is the *only* philosopher in his line. What his philosophy is worth is the thing to be tested.

We have been led to these observations by an article in the last number of the *Edinburgh Review*, upon "The Causes and Consequences of the Crisis in the American Trade." The primary causes of this crisis Mr. Maculloch traces to the *over-speculation* and *over-trading* of the Americans; and the proximate causes he discovers in the attempts of General Jackson to check the one, and of the Bank of England to correct the other. There was also, according to his analysis, a subsidiary cause to these, in the "hollow and unsound" system upon which our exchanges with America have been hitherto carried on. As Mr. Maculloch's review will afford us material for more than one article, we will begin with the charge of *over-trading*.

Now what is *over-trading*? It is simply the accumulation of a greater stock upon hand than you can find a remunerating sale for; and the only mode in which this fact can be proved is, as Mr. Maculloch admits, by the fact itself. If a merchant has bought more goods than he can find a market for without what is called "making a sacrifice," he knows that he has *over-traded*; but the market must inform him of the fact, and nothing else can. That he has bought more or less this year than he bought last year, has no bearing upon the question. If he meets with a demand for all, or more, than he has bought this year, he is not over-trading; and the trade between two nations is nothing but an aggregate of the trade of individuals. Mr. Maculloch, however, has an empirical rule—a sort of ready-reckoner of his own

* The objects of Mr. Malthus's work are hardly such as to bring them within the class to which we advert.

—to detect over-trading. According to him, an infallible test is found for it in a table of imports. He states that, in the seven years from the beginning of 1830 to the end of 1836, there was so large an increase of imports, that “every merchant, aware, as all of them might or should have been, of so enormous an excess of importation, ought immediately to have apprehended that it was the result of over-trading, and should forthwith have set resolutely at work to contract his engagements.” As a proof, he gives the following table; ushering it forth as “the most striking one of over-trading ever given to the world!”

Years.	EXPORTS.			IMPORTS.
	Articles, the Growth, Produce, or Manufacture of the United States. Exported.	Articles, the Growth, Produce, or Manufacture of Foreign Countries Re-exported.	Total Value of Exports from the United States.	Total Value of the Imports into the United States from Foreign Countries.
	Dollars.	Dollars.	Dollars.	Dollars.
1830	59,462,029	14,337,479	73,899,508	70,876,920*
1831	61,277,057	20,033,526	81,310,583	103,191,124
1832	68,137,470	24,039,473	87,176,943	101,929,266
1833	70,317,698	19,822,735	90,140,433	108,118,311
1834	81,024,162	23,312,811	104,336,973	126,521,332
1835	101,189,082	20,504,495	121,693,577	149,895,742
1836	106,916,680	21,746,360	128,663,040	189,980,035

This table, upon the face of it, proves the very reverse of Mr. Maculloch's proposition. It appears from it, that for seven years successively the imports into America kept gradually increasing at an accelerated rate; and this is an irrefragable proof that the increase of imports in none of those years arose from over-trading. Over-trading is a delicate thing, which makes itself felt in much less than seven years. It takes only four months to complete a transaction; that is, for the American importer to realise his purchases: and it would be a strange thing if a man went on importing, for seven years, more than there was a demand for, without finding it out. But let us examine the table in detail.

* The imports had not differed materially from this for a dozen years previously.

If Mr. Maculloch's theory has any truth in it, there must have been over-trading in 1831, in which year the imports increased *fifty* per cent. But this was not so; for the imports were nearly as great in the succeeding year, and from thence went on increasing for four years without a check. Again, if there was any over-trading, according to Mr. Maculloch's conclusion, it must have been in 1835, when the imports increased by twenty millions of dollars; but the table is rather an evidence that there was under-trading in that year; for in 1836 there was an additional increase called for of *forty* millions. Whether this increase of forty millions over the imports of 1836 was too large or not, would have shown itself in 1837, had General Jackson and the Bank of England been wise enough to have awaited the development. The present depreciation of goods in America is no proof one way or the other; for that has been brought about not in the due course of things, but, like Swift's eclipse of the sun, "by authority." From the beginning of 1830 to the close of 1835, *at least*, there was no over-trading; the prudence of the speculations in every year of that period being fully established by the increased demands of the succeeding one; for every extension of trade, however it may result, is suggested and prompted by the previous success of it. And so far as the point can be settled by inductive reasoning, the table affords every presumption that, rapidly as imports may appear to have increased in 1836, it was no more than might have been calculated, from the accelerating force of the causes which have so wonderfully augmented the consumption of a nation which, perhaps, is yet only in the infancy of its gigantic growth. Those causes, when they began to manifest themselves in 1831, increased its consumption fifty per cent., without creating any derangement; and what reason, therefore, now that they are in full and vigorous play, is there to be startled at an increase of twenty-six? By all logic, physical and arithmetical, Mr. Maculloch's table supplies a proof not of *over* but of *under* trading.

We shall take another opportunity of tracing the use and operations of these causes; our present object being rather to expose the universal want of correct notions on politico-economical subjects, and how little Mr. Maculloch is to be trusted in

particular. For this purpose let us look once more at his "most striking proof of over-trading ever given to the world!"

Another use which Mr. Macculloch makes of this table is, to show, from the excess of imports over exports, that a large accumulation of debt must have accrued from America to England; a debt, too, which requires to be immediately liquidated. Now, we have no idea that our merchants and manufacturers are so very liberal of their credit; for the trade has, of late years, been brought very near to a ready-money one. But if this were not the case, Mr. Macculloch's tabular experience ought to have informed him that returns of this sort are very little to be depended on, either for calculating accounts, or drawing philosophical conclusions. They are never either complete in the gross, nor sufficiently explicit in detail. For instance, under the exports this table tells us nothing of the large sums received by the Americans for freights, or of the produce of a considerable branch of their mechanical trade—ship-building for the West Indies and South America. Again, under the head of imports, the produce of their own fisheries is included, for which they certainly have not to account to foreigners, and which, during the period over which the table extends, does not amount to less than fourteen millions of pounds. But not to dwell on omissions and inconsistencies like these, there is one single fact exhibited in the returns from which Mr. Macculloch constructed his table, to which nothing but that "ignorance of principle and overweening confidence," so liberally charged by him upon others, could have rendered him blind or insensible. It is this, that of these imports, which seem to have astonished him out of the power of reasoning, one article was *gold*, which for the last eleven years the Americans have been receiving almost without intermission; and which, even in the year 1836, amounted, by his own account, to more than *eight millions of dollars*, clearly proving that the balance of payments, notwithstanding the excess of imports, has been the other way. That there is an accumulating debt due by America to this country, arising from the investment of English capital in American banks, railways, &c., is quite true; but this is not the sort of debt of which Mr. Macculloch is so apprehensive. He infers from his

table that there is an immense debt in current accounts due from the American merchants to the merchants of England ; whereas, the fact of the balance of payments being in favour of America, forbids it proving any thing of the kind by his own doctrine. For our own parts we have no idea that the merchants of America are more indebted to us, than might be attributed solely to the suspension of all payments, in which the conduct of General Jackson and the Bank of England have involved them ; and that the payment will be ultimately, and perhaps speedily, settled, we are satisfied, without tabular calculations, from the fact mentioned by Mr. Maculloch himself, that, with a few exceptions, none of the houses indebted to us have failed, and, therefore, will and must pay.

Mr. Maculloch's apprehensions, indeed, would be as harmless as they are idle. if, from his position, he were not likely to inoculate with them not only the public, but the legislature. Philosophy !—Much mischief is perpetrated by nonsense in thy name ! If any one else had been guilty of “ this most striking proof of solecism ever given to the world,” the very imbecility of it would have ensured his forgiveness. But Mr. Maculloch is the ornament of the Ricardo Club, the oracle of the Bank, the Socrates of Gower-street, the Martinus of the *Edinburgh Review* ; indeed, the personification of the political economy of the age ! His errors, therefore, are not merely those of a mistaken author, but the errors of a false science, and as such we have bestowed a notice upon his confusion about imports and exports which intrinsically it does not deserve.

ARTICLE II.—CONSISTENCY OF CURRENCY WRITERS.—

OCTOBER 21, 1837.

In another part of our paper will be found an article from the *Courier* upon the commercial embarrassments of America. Our readers are aware that Mr. Maculloch supplies all the learning upon subjects of this kind not only to the *Courier* but to the *Edinburgh Review* ; and if they will refer to his “ Causes and

Consequences of the Crisis in the American Trade," in the July number of the latter work, and compare it with his lucubrations upon the same topic in the *Courier* of last Tuesday, they will perceive what a convenience it must be for a modern political economist to prophesy in one periodical and record events in another! Those who are not able to lay their hands upon the 122d number of the *Edinburgh Review*, may look back to the 12th number of the *Economist*, in which they will find Mr. Maculloch's July speculations upon the American crisis canvassed at some length; and, by comparing them with his conclusions in October, as declared in the article elsewhere quoted, they will perhaps be induced, the next time that Mr. Maculloch treats them with a fashionable theory of "Causes and Consequences" in the *Edinburgh Review*, to suspend their judgment until he has an opportunity of announcing the *result* in the *Courier*!

In the *Edinburgh Review*, Mr. Maculloch insisted that our commerce with America had been deranged by a spirit of *spurious credit* and *reckless over-trading* unparalleled in the history of nations. In the *Courier*, he ridicules his own charge of over-trading, as we did, but in stronger terms. We shall, however, allow him to speak for himself.

The Edinburgh Review.

"In point of fact, during the last year the imports into the United States exceeded the exports by the sum of 61,316,995 dollars, or by above 12,000,000*l.* sterling! And, *seeing that the American customs' accounts represent the real values of the imports and exports with very considerable accuracy*, this exhibits, perhaps, the most striking proof of over-trading ever given to the world."

The Courier.

"The entire reasoning of the *Times*, on the subject of the balance of debt due by America, is completely fallacious. The *Times* concludes that because the imports into the United States appear, on the face of the custom-house accounts, to exceed the exports, the balance is a debt the Union has incurred to the foreigner. This seems very logical, but is, notwithstanding,

most absurd. The truth is, there is not a country in the world that has any foreign trade, whose imports do not exceed its exports; and, *were the custom-house accounts kept with even tolerable accuracy*, this would be seen to be uniformly the case!"

The Edinburgh Review.

"Though it might be the intention of parties in England to vest a considerable portion of the value of the exports from this country in American stocks and securities, still it is clear that *that circumstance could in no wise mitigate the pressure upon the importers* of such an excessive quantity of produce into America."

The Courier.

"It is necessary to *distinguish* between the mercantile debt due to foreigners, and the sums foreigners may have in stocks of various descriptions in different parts of the Union. The former only is exigible, and it is only *that* America can be called upon to pay. The parties who hold stocks in the United States run all the risks attached to that sort of property, and if they wish to realise their stocks in money, and to get a bill for the proceeds upon England, they must begin by selling the stock for what it will bring. Hence it is that all sums at any time due to England by American merchants, that may subsequently have been invested in bank, canal, or railway stock, *have ceased to be a mercantile debt, and are no longer to be taken into account in estimating the exigible debt by America!*"

Once more, and we have done—for we cannot wind up better than with the last passage from the *Courier*.

The Edinburgh Review.

"Assuming, therefore, the fact, of which assuredly there cannot be the shadow of a doubt, that the Americans have lately over-traded to an almost unprecedented extent, we have next to inquire into the embarrassment and bankruptcy which have necessarily resulted from it."

The Courier.

"It is, therefore, neither more nor less than a contradiction and absurdity, to pretend that the entire excess of imports over

exports, exhibited by the American custom-house accounts, is a balance due by America to the foreigner. There may not be a shilling of it in that predicament. *If our contemporary can swallow it, he can gulp down any absurdity, however gross !*"

So we said, but with a little less indignation, eleven weeks ago.

These remarks may be read for their amusement, but they ought to be reflected upon for their instruction. The mass of the community, however intelligent, occupied as they are with a variety of other matters, and more personally important to themselves, must rely in a great degree, on subjects like these, upon those who profess to make them their study, and more especially upon such as pretend to instruct them in works of authority like the *Edinburgh Review*. Indeed, the errors even of such parties as General Jackson and the Bank of England, may be entirely attributed to the confident tone in which the most fundamental blunders in political economy are in this way hazarded ; and we consider our present article as likely to prove very serviceable in opening the eyes of the public to the inconsistencies from day to day of such writers as Mr. Maculloch even with themselves, and how little faith therefore should be implicitly placed in any of their positive dicta or theoretical speculations.

ARTICLE III.—CAUSES OF THE CRISIS IN AMERICA.—

AUGUST 12, 1837.

We last week called the attention of our readers to Mr. Maculloch's article in the *Edinburgh Review*, and pointed out the error of the charge of over-trading which he brought against the Americans ; clearly showing that the documentary evidence which he produced to establish it, in fact established the very reverse. From this we made evident the deficiency of Mr. Maculloch as a *reasoner* on such subjects, and the danger of subscribing inconsiderately to his opinions, inasmuch as nothing can be more mischievous than the adoption of false principles in matters which so vitally affect the prosperity of a country. In

continuance, we are next led, from the theoretical absurdities of the professor, to their fatal reduction into practice by his disciple, General Jackson.

During the last seven years America has exhibited an instance of improvement unparalleled in the history of the world; but great as are her natural advantages, it is mainly to her enterprise and industry in rendering them available, assisted by the tide of emigration, both of labour and capital, that she is indebted for a rapidity of growth which presents a new problem in social philosophy. By means of her railroads, canals, &c., she has acquired, even in the morning of her existence, facilities of internal communication which other countries rarely attain even in the vigour of their meridian. In 1836, as mentioned by Mr. Macculloch, no less than forty-two railway companies, and some of them with immense capitals, were incorporated in the State of New York alone. In England, public works of this sort are in some measure prompted by the previous success of similar undertakings; but the great and principal source of them is in our superabundance of capital. This, however, could not have been the case in America, where capital, for the last seven years, has borne a value two or three times greater than in England; and the amazing extension, therefore, of her railway and navigable lines, can only be attributed to the large profits which are found to accrue from them. This, of itself, is a sufficient proof of their great value to the country; for a railway can only become profitable to its shareholders by being, on a much higher scale, serviceable to the public; and this more especially in a country like America, where the change is generally wrought from the very worst description of roads at once to the very best.

Mr. Macculloch states, also, that during the same period there has grown up an "extraordinary rage" for purchasing public lands and building situations; and this, again, is only the natural result of the rapid development of industry and wealth. In 1833, the revenue derived by the American Government from the sale of public lands amounted only to about four millions of dollars; in 1835, it rose to fourteen millions; and in 1836, advanced still further to twenty-three millions. The imports, too, as we had occasion to show in our last number, increased, between 1833

and 1836, from one hundred and eight to one hundred and eighty-nine millions of dollars. Now, in the simultaneous extension of these and all the other elements of wealth; in the increasing demand for the produce of the soil, for manufactured goods, for the comforts as well as the necessities of life, for buildings, for facilities of intercourse, &c., much indeed as there might be to delight and surprise, there was nothing at all *unnatural*. And yet Mr. Maculloch sees in it nothing but that most unnatural of all chimeras which he calls *over-trading*. In the great laboratory of American industry, he sees nothing but the "madness" of creating a supply for which there was no demand. He imagines that the Americans, notwithstanding their scarcity of capital, threw it away upon railways and canals from which neither convenience nor profit can be derived; and they are only building houses for which there are no occupants, purchasing land which they cannot cultivate, and importing commodities which they cannot consume. And to render his view of the subject still more startling, he supposes that the Americans have been enacting this "stupendous folly," as he terms it, for seven years in succession, without finding it out!

But not to dwell too long on Mr. Maculloch's absurdities, it is perfectly clear that, looking to the peculiar situation of America, she cannot, in the very nature of things, have been over-trading. No country can over-trade which is deficient in capital. It is the surplus of capital which alone can give rise to over-trading; and in America, it is easy to perceive the *scarcity* of capital from the *value* of it. The Americans had not the *power* to over-trade, had their insanity been greater than that which even Mr. Maculloch attributes to them. They had not the means wherewith to over-trade, because they had no redundancy of capital to induce or enable them to overstock themselves. There may have been amongst themselves some speculation in the public lands, which may have caused property to change hands; but this is no more over-trading than is buying for the account on the Stock Exchange, or "playing speculation" at a card table. Mr. Maculloch may be permitted to call it *gambling*, if he pleases, but he must not call it *over-trading*: nor would such gambling, to any extent, ever ruin a country in the merely monetary sense in

which Mr. Maculloch employs it. A gets what B loses; but the nation, on the whole, is neither richer nor poorer for the transfer. This is a question, not for the financier, but the moralist. The fact is, that “speculation” is a word very obnoxious to a man of limited understanding. It puts him in mind only of its follies and vices; or rather he has no idea of it, except in its abuses: whereas, speculation in itself is a wholesome stimulant of national improvement; and the vagaries which it exhibits when jobbing in the public funds, public lands, and the like, are the mere froth thrown up on the surface. Now, so far from speculation, when in this mood, involving us in over-trading, it is then alone that it has nothing to do with trading at all.

But, connected with the *over-trading* in America, there was also another evil, according to Mr. Maculloch—and that was *over-issuing*. Now, with such an amazing increase in production, consumption, the demand for labour, &c., there must have been a co-ordinate increase in the circulating medium, or such a fall of prices would have taken place as would have paralysed the growing prosperity of the country. If you produce double the quantity of goods without a correspondent increase of the circulating medium, you will reduce the prices of them one-half; thus diminishing the value of your exports, exactly as you increase them in quantity. The result would be, relatively to other countries, impoverishing your own; until the matter, at last, is rectified by the vacuum in the circulation being supplied. A proportionate extension, however, fortunately for America, did take place, so that the circulation was wisely allowed to accommodate itself to the increase of production and consumption. In 1834, the number of banks in the United States was 500; at the close of 1836, they amounted to 700; and the circulation had increased from 76 millions of dollars to 120, according to the following table:—

DATES.	Paper in active Circulation.	Specie in active Circulation.	Specie in Banks
	DOLLARS.	DOLLARS.	DOLLARS.
Near October, 1833	80,000,000	4,000,000	5,000,000
1st Jan. 1834	76,000,000	12,000,000	27,000,000
1st Jan. 1835	82,000,000	18,000,000	43,000,000
1st Jan. 1836	108,000,000	23,000,000	40,000,000
1st Dec. 1836	120,000,000	28,000,000	45,000,000

It is plain, from this table, that the increase of the American circulation only followed upon the heels of the increase of the transactions of the country; nor, according to any received doctrines upon the subject, does the table signify any excess of issues, inasmuch as it exhibits an increase of the specie held by the banks, corresponding with the extension of issues, and accompanied (as it could not fail to be) by a balance of payments in favour of America—a test (uniformly laid down by Mr. Maculloch himself, as, indeed, by every writer upon the subject,) by which to prove, that the circulation, relatively to that of other countries, is deficient. Mr. Maculloch, nevertheless, finds in the increase of the *number* of American banks, a presentiment so strong as to dispense with all proof that they had unduly enlarged the circulation. But banks, as dealers in capital, do not *create* money. They merely receive and re-distribute it—they are only the agents or the instruments of its circulation; and, as issuers of the currency, they appear, in this instance, to have legitimately answered the demand for it.

Putting all these considerations together (which General Jackson surely might have done), they prove the most unequivocal growth of national wealth in America, which documentary evidence, elucidated by the inferences of common sense, could afford; and which, if uninterrupted, would have met with no check until it arrived at those limits which nature herself would have prescribed. And yet General Jackson suddenly put a stop to the whole machinery by which the wealth of the country was in a course of development, and that merely from a simple fear that it would put a stop to itself. The process he adopted was straightforward enough—he took from the country a considerable portion of its circulation; thus bleeding it to death, to prevent dying from too much health! The sale of public lands, in the first instance, brought certain sums into the treasury, but this caused no absorption of the circulation. The money was deposited in the banks, and lent out by them again. But General Jackson, in July last, ordered that all public lands should be paid for in specie, and that the banks should be prepared to pay all the government deposits in specie likewise. Hence the banks, by the law which limited their circulation to three times the amount

of their specie, were compelled to contract it, to be ready for this novel call of the government. There was passed, moreover, an Act of Congress (which Mr. Maculloch does not notice), that the surplus revenue, which was chiefly collected in the outports, should be divided among the several states; and the government preferring to make the remittance in specie itself, by its own waggons, to the somewhat slower process of effecting it by bills of exchange, created yet another demand for specie, for which the banks were also forced to provide by a still further contraction of issues. The effect of these two measures was a violent diminution of the currency; the contraction in New York alone, being from *eight* to *five* millions of dollars in the first four months of the present year; and it may easily be conceived, that if that which is at once a measure of value and instrument of exchange be violently deranged, a general stagnation and embarrassment must be the consequence. It matters not *how* you do it; but, if you suddenly annihilate a third of the currency, you cannot avoid producing a very general suspension of the transactions of the country. This is just what General Jackson did, and what Mr. Maculloch approves so highly, that he finds no fault with him for doing it, except that he did not set about it sooner.

We shall, in a future number, advert to the part which England has borne in this crisis; concluding, for the present, that, as far as America is concerned, she is indebted wholly and solely to General Jackson's crippling her currency.

Independent, however, of the fact, that it was General Jackson's currency manœuvre, and that alone, which has done all the mischief in America, there is another question, not without its interest to every people who are liable to be afflicted by such meddling on the part of the government, namely, had he, constitutionally, a right to take such a step as he did on his own responsibility?

That General Jackson had a power to insist upon the American revenue being paid in specie, is not the point in dispute. He merely exercised a power which the American laws give to every individual, of demanding payment in specie at his option; but, on the other hand, it is equally evident, that the constitution of America never embraced the idea that this power would be ex-

erted by the supreme officer of the state. Suppose that gold were the only legal tender in England, the government would have the same power, as an individual, to extort the money due to it in gold; but the minister who should take such a step in this country would find the fact of his not having exceeded his power, a poor plea for the mischief he had done by it. It may be right that an individual, who is not called upon to care for any interest but his own, shall be allowed to put his neighbour to an inconvenience by compelling him to pay the full tale in the coin of the realm; but government has no cares of its own separate from the people, upon whom the Egyptian demand is to be made. In the case of an individual, the act is one of severity, which the absence of all ties between the parties may palliate; on the part of a government it becomes, by the paternal cares it owes to the people, an act of oppression. Besides, in the case of General Jackson, the power which he exerted in his official capacity was not one which was officially attached to it by the constitution: it was a power accidentally left in his hands,—a power which he was obviously allowed to possess, because it could not be anticipated that any man in his situation would dream of exerting it; and under such circumstances the very exertion of it was morally, though not legally, an abuse of it.

CHAPTER VI.

INTRODUCTION.

THIS chapter contains *one* article on the subject of over-trading. It shows that over-trading would never in itself be the cause of a national calamity; that it only produces the baneful effects we [some time] experience from it, by its action upon an ill-managed currency, which latter, from Mr. Maculloch's admissions and explanations in the *Edinburgh Review*, ought not to be continued in the hands, and under the control of the Directors of the Bank of England.

ON THE PRINCIPLE OF OVER-TRADING.—AUGUST 19, 1837.

No apology can be necessary from us, for continuing to bestow our best attention to those mischievous errors which have reduced the commerce between England and America to its present condition. Had there been any thing like *design* in plunging two great nations from the summit of commercial prosperity into such an abyss of embarrassment and distress, the question would have been one for the politician to discuss; but, the mischief being solely attributable to the errors of a false philosophy, it is incumbent upon all, who have the power, to expose them, with the view of preventing their repetition. And this is no easy task. The blunder with which a man begins life frequently sees him to his grave; and a popular blunder is still more tenacious, as one generation takes up the inheritance from another. *Over-trading* is one of these popular fancies. If things go wrong, it is the sin of *over-trading*, for which we are atoning; and if they go right,

it is still the same sin, for which we must do penance by nipping it in the bud. As Swift once said, "the English are a people peculiarly fortunate, too much prosperity being the only calamity they have to fear." Not that commercial prosperity is a calamity in itself, but that it is invariably seized upon as an excellent opportunity of recalling our attention to the sweet uses of adversity. *Over-trading* is not the evil; it is merely the occasion for it. In one sense it is the *cause* of the evil, but only as an otherwise healthy fit of the gout kills a man by his having a deadly remedy for it forced upon his stomach. The man would have lived, and all the longer for the lesson of temperance taught him by his sufferings, had he not been quacked to death. So with *over-trading*. It would go off of itself, if left alone, and leave a wholesome caution behind it, to prevent future excesses. But the practice is to anticipate this sanative process, and not only prevent the good we should otherwise receive, but do an infinity of mischief. A few elementary remarks upon this mysterious over-trading will perhaps not be deemed superfluous.

In every extensive trade there is always an *oscillation* between over-trading and under-trading. It cannot be otherwise in the nature of things, when numerous persons in different parts of the country are engaged in the same business, whether of production, manufacture, or export, they can never know so much of each other's operations as to very nicely calculate what their own ought to be. They can never so finely adjust the extent of their own transactions as to make them the balance, whereby the whole supply shall be exactly or nearly equal to a given quantity or amount. To do this there would be required an intimate intercourse, and a mathematical precision in business, which need only to be mentioned to secure a place in the records of Utopia. But, supposing that by any possible facilities of communication this desideratum in a trade—the supply of only a given quantity—could be achieved, the producers of that supply have no control over the demand of the consumers. The suppliers of the market, for this reason alone, would over-trade or under-trade just as they do now; and, as we have said in a former number, they never do, and never can, ascertain the fact, one way or the other, until the fact proclaims itself in market. The natural

impossibility of our knowing each other's wants and means, renders it inevitable that we produce, or manufacture, or bring to market, either more or less than is actually wanted. Judgment in supplying this actual want is speculation: the word has, thanks to the philosophers who play upon words, got an equivocal character; but, rightly understood, it is a very honest word. It over-trades and it under-trades; but it is precisely by doing so that it would keep every thing going like "clock-work," if left alone. It is the pendulum of trade which by its oscillation gives a steadiness to the rest of the machinery.

It would be well if the spirit of over-trading was abandoned to its own prudence. The bee which passes from flower to flower is an emblem of it. Free from fright or control, surplus capital instead of oppressing by its weight, first this and then that branch of trade, would lightly visit each in something like succession. That it does not do so is owing to this; that capital, through the ignorance of our political economists, is made to suffer for the errors of currency. When a general advance of prices takes place in a country like England, the surplus capital and labour ever at hand has a tendency to stimulate production to an over-stock. But this, of itself, would cause little inconvenience. It would correct itself before any considerable mischief could be done. Indeed, no branch of trade, by its own acts and deeds, would ever be able to involve the nation at large in a dilemma. But when an importation to any unusual extent takes place, the balance of payments is deranged; and then we suffer, not from the extent of the importation, but from our currency not being adapted to settle the balance for it without a great internal derangement. The exportation of gold is made to contract the circulation. If the pressure for money thus caused was distributed over the country at large, it would comparatively be little felt; but the contraction falls, in a degree highly disproportionate, on the circulation of London. It is bleeding from the heart; and the whole system, which would endure the drain, if more evenly and judiciously effected, suffers from the paralysis of its principal and animating organ.

We have no doubt that our present system requires correction; but an improvement in the management of it by the

Bank of England, who have the exclusive control of the circulation of London, would greatly mitigate, if not entirely prevent, those embarrassments which are erroneously attributed to over-trading. For it may be broadly affirmed, that over-trading is never the cause of these embarrassments, except as it is made a reason for suddenly contracting the currency ; and the currency being secured from such contractions, over-trading would produce none of those violent shocks at present imputed to it, even if it should generally pervade all trades at the same time.

It must, however, be admitted, that the management of the London circulation confided to the Bank is not only a trust of great importance, but of great difficulty ; and one which no board of merchants are fit persons to administer. And what increases the difficulty to the Bank Directors in particular, is the fact that the principles they lay down for their management are not only absurd, but such as every day's experience might teach them that, however they may assert them in theory, they cannot maintain them in practice. But not to enter upon those more complex questions as to their management, their incompetency is admitted even by their own advocate, and that in reference to circumstances which afford no excuse for their being in error. The American houses were engaged as agents in effecting the payments for the goods exported to our great customer America, and the attempt on the part of the Bank of England to throw out their bills was simply one to put a stop to our exports. How and why they did this we will leave their own apologist to explain, in the following extract from the *Edinburgh Review* :—

“ In the month of September last, after receipt of the intelligence of the commencement of the revulsion in America, the Governor of the Bank wrote to the agent of the Bank's branch in Liverpool, instructing him, consistently with the rule to be observed in London, to reject the paper of the American houses, which were specified by name ! We take it for granted, that the Governor had the authority of the Court for writing this letter ; but, however this may be, it seems to have been, in no ordinary degree, rash and ill-advised. The American houses had not, when it was written, applied to the Bank to discount a single bill ; and though the Directors were bound, knowing their situation, to

have been extremely cautious, had they come to them, this would not warrant their doing any thing, in anticipation, that might by possibility undermine the credit of parties not seeking their assistance. Besides, it is not practicable to throw out large classes of bills; at least, if the public interest be thereby materially compromised. The Bank may reject the paper of a particular house, though that is always invidious; but if she attempt simultaneously to reject the paper of *all* the houses engaged in any very extensive department of business, it is quite certain, from the discredit such a proceeding will occasion, that she will, in the end, have a much greater mass of inferior paper thrust upon her than if she had acted on a more liberal system. But, whatever may be thought of the act of writing such a letter, there certainly can be only one opinion as to the necessity that existed for making it 'most confidential,' and of maintaining profound secrecy with respect to it. Whether, however, it were owing to the inexcusable negligence of the letter-writer, or to some inconceivable folly on the part of the agent at Liverpool, to whom it was addressed, the latter did not regard it as confidential, but, on the contrary, showed it to certain parties! The effect was like magic. The credit of the American houses, that had previously stood so high, was instantly annihilated. The money-dealers and discount-merchants immediately turned round, and unceremoniously rejected the paper for which they had the moment before manifested so great a liking. But the Bank not daring, under the circumstances, to act on the principle laid down in the letter, or to refuse paper said to be discredited by her own act, the money-dealers got out of the difficulty; and the Bank found herself compelled to take the paper they had created, and she had pronounced to be unsafe. This, however, was but the least effect of this precipitate proceeding. Intelligence of what had happened in England was conveyed by the first packet to America, where it irreparably damaged the credit of the English houses. The American merchants, who already had to make head against the effects of the President's circular, and the crippled state of credit at home, found, to their astonishment, that they had a new and most serious evil to contend with; and that they would not only be pressed for the immediate pay-

ment of the immense balances due by them to England, but would most probably have to provide for a few millions of returned bills.

“ The banks in all the Atlantic cities immediately took the alarm, lest bullion should be demanded for shipments to Europe, as well as to the West ; and the severity of the crisis that had begun in the United States was in this way immeasurably aggravated. From the moment that the discredit took place here, it became apparent that the stability of such houses as could not command extraordinary resources, would entirely depend on the fact of their correspondents in America being regular in their remittances ; and that their situation was so very perilous, that any unusual delay in the arrival of a packet might compel them to suspend payment.”—*Edinburgh Review*.

As we have already remarked, this was an occasion upon which we might have calculated that the Bank could not go wrong. As merchants, they ought to have foreseen that the effect of their destroying the credit of the American houses could be no other than to prevent our manufacturers from getting payment for goods already exported, and to check the demand for more. It is true that Mr. Maculloch endeavours to concentrate all the blame upon the Governor ; but this would not mend the matter for the Bank. It makes the system of irresponsibility infinitely worse, if a power so vast as the Bank possesses can be exercised in so loose, unauthorised, and capricious a manner, and that by a single individual, as Mr. Maculloch's account would imply. We do not, however, believe that the Governor acted solely of his own head ; we must regard the Directors, as a body, answerable for the mischief ; and it becomes a serious point for the Legislature to consider, if in a matter so simple they could act in a manner so unaccountable, how far it is right to continue in their hands a trust which at other times presents complexities and difficulties with which no twenty-four merchants are qualified to grapple.

CHAPTER VII.

INTRODUCTION.

THIS chapter contains two articles.

The *first* gives a concise view of the manner in which General Jackson contrived to bring about the crisis in America, together with an examination of two letters of his, in which his ignorance of the subject is strikingly exemplified ; and

The *second* shows the manner in which the Joint-Stock Bank Committee of 1836 would have dealt with our currency, had they possessed the same power as General Jackson ; by which, it is pretty clear that their notions and General Jackson's were derived from the same source.

ARTICLE I.—GENERAL JACKSON'S LETTERS ON THE AMERICAN CURRENCY.—SEPTEMBER 16, 1837.

We were enabled last week, before going to press, to give some extracts from two letters written by General Jackson on the present state of affairs in America. The General is a true disciple of the English school of political economy, and having exhibited its errors in practical operation, it is our duty to benefit by the exposure of them.

Up to the autumn of 1836, the United States of America had, for the preceding seven years, been running a career of great progressive prosperity. The improved and extended cultivation of her soil ; her multiplied facilities of internal intercourse ; the increase of her consumption of the necessaries and luxuries of life ; the expansion of her currency on the soundest principles of political economy, and the ample return for capital employed to

produce these results,—all tend to prove that America, during the period we have named, was making gigantic strides towards national greatness and wealth ; and that founded upon a basis the most real and durable.

In the production and economy of human wealth, however, man is stimulated to exertion by the power which the fruits of his labour give him of purchasing the fruits of the labour of others. Money is the mere instrument by which their relative value is expressed, and the exchange of them effected. In order, however, that the machine of human industry may go on without interruption or derangement, money should, as far as possible, express this relative value correctly. Should a diminution of the money in circulation take place, no matter how gradually, it has always been found to produce a paralysing effect upon human industry ; but when it takes place *suddenly*, an instant stagnation in the demand for all commodities is felt, their value falls, and, as the last effect, their consumption and production is checked, men ceasing to produce what they cannot sell, and to purchase what they cannot pay for.

This state of things General Jackson inflicted upon America. He was desirous to do what our philosophers and statesmen on this side of the water are ever anxious to do ; namely, to check speculation ; and, unluckily for America, he possessed a power to do it, which our *savans* have not.

If an English minister were to order the payment of all Treasury-drafts upon the Bank of England, all Government remittances from one part of the kingdom to the other, and the payment of all the duties and taxes to *be made in gold*,—a demand for it as an instrument for these purposes would be created, which would either stop the Bank of England, or compel the Bank of England to stop the country. The probability is, that if the Bank were, in meeting such a demand, to contract its issues (as Mr. Maculloch would advise them) to the extent of it, they would stop the country first, and thereby create a state of alarm and confusion, which would bring them to a stop in return. And this is precisely the part which General Jackson adopted. He determined that all the monetary transactions of the Government should be effected in specie ; that the payments due to it, and

the remittances to be made by it, and even the deposits returned to it, should be in specie, and specie only. A demand for specie, to carry on this new operation, was consequently made upon the banks to a very serious amount; and the American banks, having no option as to the policy they should themselves pursue, but being compelled to keep their circulation within the limit of three times their specie, for every dollar with which they parted in coin were necessitated to withdraw from circulation three dollars in paper. The currency, as a result, was violently contracted; confidence in the banks was destroyed; and all the commercial transactions of the country were brought to a stand. In this way General Jackson was the sole author of his country's embarrassment, though he seems quite unconscious of it. His letters exhibit him in a towering passion; and if he intended them as a justification of his policy, we must admit that they offer the very best of apologies for it, inasmuch as they display a degree of obstinate ignorance from which nothing better could have been reasonably expected.

"I have just received the *Globe* of the 13th," says the General, "and am pleased to discover from it and other papers, that the democracy are untiring upon the plan of separating the Government from corporations of all kinds, and to collect the revenue, keep and disburse it by their own agents. This alone can secure safety to the revenue, and control over-issues of paper by State banks." How the Government is to separate itself from the banks, and acquire a control over them by doing so, is a paradox which the General's democracy may comprehend, but we confess we have yet to be enlightened upon it. "The revenue," he continues, "reduced to the real wants of the Government, payable in gold and silver (no credits); to be disbursed by the Government in gold and silver, will give us an undeviating metallic currency, prevent hereafter over-trading, and give prosperity to all branches of business; whilst the banks and the commercial community will be left to manage their exchanges, and all matters between them, in their own way. I hope and trust that the whole democracy of the whole Union will unite in adopting these measures."

Now the measures here proposed by the General would

neither give an undeviating metallic currency, nor prevent over-trading, nor give prosperity to any branch of business. It would merely introduce an additional quantity of metallic money into practical circulation, which, when once in circulation, would leave matters just the same as before. *Our* statesmen fancied that substituting gold for one pound notes was to work similar miracles here; but they were egregiously mistaken. It is true, that if this plan of the Government managing all its money transactions in specie were once established, and the currency were once accommodated to it, by the vacuum caused in it being filled up by fresh importations of specie, no future President would be able to play similar tricks with it; and this would be the sum total of the change brought about. It is to be hoped that Congress will be able to find out a much simpler and less expensive mode of preventing the follies of their Presidents.

But the General anticipates another advantage from his measures. "The democracy of numbers," he says, "will never have another contest with the aristocracy of the few, and their paper credit system upon which they rely to rule the country." Now, if the aristocratic few, that is the commercial men of America, have the influence which he deprecates, the General may be quite sure that they derive it from property and not from paper. The General, however, never mentions them without considerable excitement. "From the conduct of the banks and the merchants," he exclaims, "they deserve no favour from the Government which they have attempted to disgrace, and to destroy its credit both at home and abroad." *I am the State*, said Bonaparte; and General Jackson indulges in the same puissant personification. With him, to differ with the President is to be disaffected to the Government. And it is not bad policy in the General to put the matter in this point of view, his letters clearly betraying his object to be, to excite the democracy of agriculture to enlist in his quarrel with the aristocracy of commerce. Thus he goes on—"but the commercial community hitherto has been fostered by the Government, to the great injury of the labour of the country, until the mercantile aristocracy combined with the banks have assumed the right to control and manage the Government as their particular interest requires, re-

gardless of the rights of the great democracy of numbers, who they believe ought to be, and they are determined shall be, hewers of wood and drawers of water." We suppose that there must be hewers of wood and drawers of water in America,—for there were such even in France in the reign of Louis le Grand, when "the French were a nation of gentlemen." And if wood is to be hewn and water to be drawn in America, and the present democracy are to be emancipated from the drudgery, we should like to know *who* are to do it. Does the General mean that the aristocracy are to wield the hatchet and carry the pitcher? Why, even then, the General would have a democracy to pity; there would be a mere change of situations; except, perhaps, that the aristocracy, being fewer in number, must work much harder in their new vocation than the present possessors of it, and therefore have still louder calls upon the General's compassion. If he does not mean this, he must mean that every man should hew wood and draw water for himself, that is, that the New World should go back a century or two.

The General concludes with the following attack upon his protégés, the deposit banks:—"The history of the world," he says, "never has recorded such base treachery and perfidy, as has been committed by the deposit banks against the Government, and purely with the view of gratifying Biddle and the Barings." Now, General Jackson destroyed the United States' Bank to give their business to the deposit banks; and he supposes that they have stopped payment on purpose to spite him, and to gratify Biddle, whom he had shoved out of the way to make room for them. Had they done this, they certainly would have been guilty of "base perfidy and treachery," and not only to General Jackson, but to themselves also.

These letters, however, are to be read, not merely as amusing exhibitions of folly, but to be regarded as lamentable proofs of the general state of ignorance upon the subjects to which they refer. General Jackson is a shrewd and sensible man; and had within his reach all the intelligence which, whether in England or America, had been applied to the question. And yet, with these advantages, and no doubt with the best intention, we see what mischief he has been the author of, by adopting a course

of proceeding which the highest authority in this country (the *Edinburgh Review*), if it has not praised for its result, at least has not scrupled to justify for its principles. However, the first step to knowledge is the conviction of ignorance; and if the tremendous crisis from which England and America are now suffering, shall have opened the eyes of both nations to the woful want of sound knowledge in those upon whose sleeves they have been in the habit of pinning their faith in such matters, one of the greatest obstacles to the admission of truth will for the first time have been removed, and the errors of the present day prove of some service at last, as beacons for the future.

The following answer to that part of the General's letter, in which he refers to the house of Baring and Co., may also be added with propriety :—

In a preceding article we have referred to a charge brought by General Jackson against the deposit banks of America, that they attempted to “degrade, embarrass, and ruin their own country,” and “purely to gratify Biddle and the Barings.” Of all persons in the world whose general reputation affords a presumption that they could not be gratified by an injury inflicted upon *any one*, the house of Messrs. Barings stand pre-eminent, their character not being more respectable as merchants than as men; but that they could be gratified by the ruin of their own customers is such an extravagant stretch of distempered fancy, that the charge stultifies itself. They may, however, derive gratification from the opportunity which the late crisis has afforded them, of ascertaining the extent of their credit, as well as of proving the magnitude of their own resources; for it is a striking fact, and equally creditable to the intelligent management of their business, that, although one of the English firms included in the term American houses, no one even took the trouble to suppose that they could possibly be effected by the general embarrassment. They stood, like an oak in the forest, not only uninjured by the storm, but apparently unconscious of it. When the discredit was in the first instance thrown upon the American houses, they offered at once to discount their own acceptances at a moderate rate of interest, and ticketed each

bill, as they accepted it, with this offer, so that any party might avail themselves of it. And this, too, was probably an offer to discount some millions of paper, when money was exceedingly valuable; and paper, it should be borne in mind, which they could not get re-discounted, it being accepted by themselves. This exhibited the immense resources of the house, as well as the financial skill which was requisite to enable them to deal in this manner with such an emergency; and has probably raised the reputation of the house to as high a pitch as it has enjoyed at any time since its foundation.

ARTICLE II.—DANGER TO JOINT-STOCK BANKS AND THE COUNTRY
FROM ERRORS RESPECTING THE CURRENCY.—AUGUST 26, 1837.

Nothing so much retards the establishment of a truth as that tone of vituperation which too often pervades the discussion of public topics, and which reduces a question of science to a mere party or personal altercation. When this spirit is indulged in by the disputants, they feel their own credit involved in the issue of the argument, and truth becomes less the object of it, than a personal or polemical victory. But it is rarely that we have a right to argue from the general policy of a man to his individual character. For instance, we are firmly convinced that General Jackson has been the whole and sole cause of his country's embarrassment—that, without infringing upon the letter, he violated the spirit of its constitution in the measures which he adopted—and yet, by whatever prejudice he was biassed, we would not charge upon him that he premeditated the mischief which we impute to him. We give to him the same credit which we claim for our own public men. No one would charge any sinister motive upon Sir Robert Peel, Mr. Spring Rice, Mr. Poulett Thomson, Mr. Clay, or any other member of the Secret Committee which was appointed last year to investigate the affairs and management of Joint-Stock Banks; and yet, if we examine the report of that committee, we find General Jackson's policy as closely followed, as if they had derived it from the same source. The indignation of General Jackson, as expressed by

his specie circular, was directed against the issues of the banks, which he, no doubt conscientiously, conceived were raising the people to a dangerous pitch of prosperity. Our Joint-Stock Bank Committee laboured under the same infatuation, and had every inclination to deal with our banks as General Jackson did with the banks of America. One striking and curious instance will suffice to establish this assertion.

The Parliamentary returns of the issues of the joint-stock and private banks showed superficially that those of the former had for some time been increasing, while those of the latter had remained nearly in *statu quo*. Upon this *fact* the committee remark, that “it is to be *inferred*, from the increased issues of joint-stock banks at periods when the Bank of England was endeavouring to limit the amount of paper in circulation, that a due attention was not given by them (the joint-stock banks) to the returns published in the Gazette.” From this *inference* the committee jump to the avowal, “that it was under the consideration of the committee, whether the law and practice, which they have described, did not require the interposition of the Legislature even during the present session (of 1836).” We have never been able to find out what was the precise measure contemplated by the committee; but the tendency of it is evident from their alarm at the (to them unaccountable) increase in the issues of the joint-stock banks. They were puzzled, as General Jackson was; and would have done as General Jackson did, had it been as easy for them to imitate his error. General Jackson, by a power accidentally left in his hands, and, favoured by the system of currency peculiar to America, had a down-hill course before him, which *our* legislators had not. We may recur to this essential difference in the position of the two countries at another time, being bent at the present to show that the threatening conclusion of the committee was based upon a species of error which the Macullochite school invariably commit, whenever they venture upon the science of induction. Our readers will bear in mind that the committee stated a *fact*, namely, that the joint-stock banks had been guilty of an increase of their issues, &c.; and the report is armed with the following table to elucidate the extent of it:—

“An account of the aggregate amount of notes circulated in England and Wales by private banks and joint-stock banks and their branches; distinguishing private from joint-stock banks.—(From returns directed by 3 and 4 Will. IV. c. 83.)”

	Private banks.	Joint-stock banks.	Total.
Quarter ending			
28 December, 1833	8,836,803	1,315,301	10,152,104
29 March, 1834	8,733,400	1,458,427	10,191,827
28 June, —	8,875,795	1,642,887	10,518,682
27 September, —	8,370,423	1,783,689	10,154,112
28 December, —	8,537,655	2,122,173	10,659,828
28 March, 1835	8,231,206	2,188,954	10,420,160
27 June, —	8,455,114	2,484,687	10,939,801
26 September, —	7,912,587	2,508,036	10,420,623
26 December, —	8,334,863	2,799,551	11,134,414
26 March, 1836	8,353,894	3,094,025	11,447,919
25 June, —	8,614,132	3,588,064	12,202,196

“The question is,” said Lord Mansfield one day to a special pleader, “not only what your argument proves for the fact, but what the fact, if it be one, will prove for your argument.” Let us take the fact “triumphantly proved,” as Mr. Maculloch has it, by the inquiries of the Committee. For aught yet shown to the contrary, the increase of the issues of joint-stock banks might be simply accounted for by their natural tendency to take away the business of the private banks. But we have something more than a probability for this hypothesis. During the period for which the table is drawn up, between forty and fifty private banks transferred their circulation entire to the joint-stock banks. The mere fact of the increase of the joint-stock bank circulation is therefore explained; and the only question is, whether, relatively to other parts of the circulation, it was *unduly* increased. The Committee say that it *was*—they show us that it increased, while that of the private banks remained stationary. But the committee altogether overlooked the circumstance just referred to, that between forty and fifty private banks had in the interval merged into joint-stock banks; so that the private

banks, being less in number, and yet keeping their circulation stationary collectively, incontestably proves that individually they had been enlarging it. If any crime had been perpetrated, (which, by-the-bye, the committee merely assumed,) the table adduced (when the correct inference is drawn), instead of bringing it home to the joint-stock banks, brings it home to the private banks.

But, besides the looseness and precipitation with which the committee drew this charge of over-issuing, from the table inserted above, the very urging of such a charge at all, evinced the most woful ignorance of the principles upon which the country circulation is issued; inasmuch as the banks cannot by any voluntary motion of their own regulate their issues by the bullion in the bank coffers. Yet upon this charge, which we have shown that they cannot prove in the first instance, and that even if they could prove, it involves no blame on the part of the banks in the second—yet, upon this charge, we repeat, they threaten a proceeding, which would instantaneously have convulsed the nation from one extremity to the other, if they could have carried it into effect.

We do not deny that there were derangements operating upon the currency which called for inquiry and rectification. There is an increase in the country circulation, shown by the table, of 20 per cent. : and it would be highly instructive to ascertain whether it was a legitimate increase or not, and by what agency it was effected. But instead of adopting the proper course to do this, the committee talked largely of prudence, while they exhibited a lamentable lack of it themselves, in advising *something* to be done before they had discovered what that something ought to be.

CHAPTER VIII.

INTRODUCTION.

THIS chapter contains three articles.

The *first* gives the occurrence of the general suspension of cash payments in America.

The *second* suggests the beneficial consequences likely to result from it to both countries ; and

The *third* gives a concise view of the president's message on the subject, with its evil, and probably impotent recommendation.

ARTICLE I.—HISTORY OF THE SUSPENSION OF CASH PAYMENTS IN AMERICA.—JUNE 17, 1837.

Advices reached London on Monday last that by one of those extraordinary “actions of the public,” which supersede and defy the usual supremacy of the Government, an universal suspension of cash payments had taken place in America. The Government in that country had for some time held out with astonishing firmness against giving their sanction to such an event, but it took place without their authority, and in spite of it ; and all that they could then do was to make the best of it, by adopting such measures as would prevent the ill-designing and inconsiderate from making it the source of unnecessary mischief.

The immediate origin of the suspension was as follows :—On Tuesday, May 9, a small institution in New York, called the Dry Dock Bank, could not meet the demands made upon it for

specie, not in consequence of insolvency, but discounting beyond their means. They applied to the other banks to sustain them, which not being immediately done, they closed their doors. Their capital was only 420,000 dollars—their discounts 811,784 dollars.

Their *assets* at the time they closed were.. 1,880,893 dols.

Specie, 15,705 dols.

Debits 1,592,789

Surplus in their favour..... 288,104

The other banks then immediately paid in specie all the Dry Dock notes that were out.

But the alarm had spread—panic became general—*saue qui peut* was the word—and a general rush for specie was made simultaneously upon all the banks in New York. There was no standing against so overwhelming a torrent; and, accordingly, on the next evening the bankers of New York held a meeting, and issued the following notice to the public:—

“At a meeting last evening of all the banks in this city, except three, it was resolved that, under existing circumstances, it is expedient and necessary to suspend payments in specie.

“In the mean time the notes of all the banks will be received at the different banks as usual in payment of debts and in deposits, and, as the indebtedness of the community to the banks exceeds three times the amount of their liabilities to the public, it is hoped and expected that the notes of the different banks will pass current, as usual, and that the state of the times will soon be such as to render the resumption of specie payments practicable.

“May 10, 1837.”

Three banks would not agree to the arrangement, and continued to pay specie for a few hours; but, finding all their gold and silver going from them, they suspended also.

Great excitement prevailed, and the streets were crowded, but no acts of riot or violence occurred.

The moment the news reached Philadelphia, the merchants and citizens held a meeting in the Exchange; and though there

was at that time no immediate necessity for the measure, they requested the Philadelphia bankers to suspend specie payments; chiefly on the ground that immense sums in gold and silver would be drawn from their banks, and conveyed to New York, where it would be sold at a premium of 10 or 15 per cent. The bankers met, and discussed the matter nearly the whole night, when they all came into the views of the merchants, and suspended specie payments. The United States Bank would not consent to it at first, and paid for several hours; but finding it was merely impoverishing itself for the benefit of brokers and speculators, who sold specie at a premium, that institution followed the general example after a few hours, and suspended also.

The Bank of the United States, it will be remembered, was formerly the Government Bank of America, but General Jackson refused to renew the charter when it expired in 1836, and it has since received a provincial charter from the State of Pennsylvania, it is, consequently, a Pennsylvanian Bank, although it retains its original name. Its capital is very large, and according to the statement of Mr. Biddle, the manager, was under no necessity of suspending, other than what arose from a considerate care of the public interest. At any rate, an example of suspending being followed by such a bank decided any doubts that might be entertained by inferior establishments, and we have a list before us of sixteen principal towns in which all the banks had stopped paying in cash within a week after the stoppage of the Dry Dock Bank. The suspension would, of course, become general with as much rapidity as the news could be communicated; and this would by no means be retarded by the Legislature of New York, where the panic began, promptly stepping in to relieve the banks from the consequences of the illegal step to which in suspending their payments in specie they had been compelled by the necessities of the emergency. By the law, a bank refusing to pay in specie *ipso facto* forfeits its charter, but this provision has been put in abeyance for one year, by an act of the Legislature then sitting.

There were seventeen votes in the New York Legislature for this measure, and only two against it; and there can be little doubt that it will be adopted by the other States of the Union.

In Philadelphia great distress was anticipated from the want of small change, and, in consequence, the city authorities met and passed an ordinance, authorising the issue of certificates or scrip to the amount of 130,000 dollars in notes, from ten cents (fivepence) upwards. The following is a copy:—

“ [10 CENTS.] LOAN OF MAY 11, 1837. [10 CENTS.]

“ This is to certify that there is due to the bearer from the mayor, aldermen, and CITIZENS of Philadelphia, the sum of TEN CENTS., bearing interest at the rate of one per cent. per annum, payable May 12, 1838, and being part of a LOAN OF 130,000 DOLLARS, authorised by an ordinance passed May 11, 1837.

“ WM. STEVENSON, Assistant City Treasurer.

“ Redeemable May 12, 1838.”

Incorporated companies have also, by an evasion of the law, issued similar notes or *receipts* in the following manner:—

“ CAPITAL, 500,000 DOLLARS.

“ [5 CENTS.] Incorporated 1836. [No. 665.]

“ Received by the PHILADELPHIA LOAN COMPANY, on deposit, from Benjamin Duncan, Five Thousand Dollars; FIVE CENTS. of which will be payable with interest, at the office of the Company, 34, Walnut-street.

“ May 13, 1837. GEO. S. SCHOTT, President.

“ J. M. Moore, Cashier.

“ (Five Cents. deposited for one year.)

“ (Interest 5 per cent. per annum.)”

Philadelphia was becoming inundated with paper of this description; and even with some of a character far worse, issued by private individuals, of which we give a specimen:—

“ [5] MANUAL LABOUR [5]
BANK.

“ I promise to pay, on demand, FIVE CENTS., at my *Manual Labour* Banking House, N.E. corner of Second and Race-street.

“ Payable in Philadelphia Bank Notes.

“ May 11, 1837.

“ T. W. DYOTT.

“ Stephen Simpson, Cashier.

“ FIVE CENTS.”

The correspondent of the *Chronicle* informs us that the same system is coming into operation in every city throughout the States, and that in many cases, butchers, and other retail dealers, have issued them *payable in meat, &c.*, by way of change for the Bank Notes of their customers.

ARTICLE II.—OBSERVATIONS UPON THE SUSPENSION OF CASH PAYMENTS IN AMERICA, AND PROBABLE CONSEQUENCES OF IT TO AMERICA AND ENGLAND.—JUNE 17, 1837.

In another part of our paper will be found the particulars of the general suspension of cash payments which has taken place in the United States of America. It is important to observe, that the suspension does not appear to have been brought about by the demand for specie to be remitted to this country—for all such remittances had themselves been suspended previously—but by a panic amongst the Bank depositors, and a consequent run upon the banks, which it was utterly out of their power to meet.

The suspension originated in the state of New York, and from thence rapidly spread throughout the Union. To legalise the suspension, the local Parliament of New York, which was sitting at the time, passed an act to abrogate the penalties against non-payment in cash, the law on that score in America being peculiarly astringent and severe; and the example will, no doubt, be generally followed in the other states of the Republic.

But the most remarkable feature of this monetary revolution is, not only that cash payments have ceased, but that an inevitable paper currency has established itself in the room of the metallic currency, which is fast disappearing. The original cause of this change is by no means obscure. It appears that the circulation of the banks of New York decreased between January and May from 8,155,000 dollars to 4,931,000; and that of the provincial banks of the same state from 12,461,000 to 9,601,000—a contraction so rapid and extreme as to account sufficiently for the consequences which ensued. This mischievous contraction, again, is clearly to be traced to certain financial operations of the Government, and thence leads us to the con-

clusion, that the Maculloekites of America are as influential with the administrators of the currency, and, if possible, even more wild and extravagant, than their brethren on this side of the water. * * * * *

The Americans are working out a very curious problem in the science of currency; but the more pressing points for inquiry are, first—what will be the immediate result of this suspension of cash payments to America herself? and, secondly, to England as her creditor? America, no doubt, will be relieved from the continuation of the pressure brought upon her by the financial regulations of her Government; and all the contrivances of General Jackson for a metallic currency at one swoop swept away, as every dollar now current will be driven out of circulation. Indeed, the operation is now in process, specie being already in America at a premium of 10 per cent.; and as specie is not wanted there for practical currency, it can only be at a premium for the purpose of being remitted to England.

But a contemporary, usually very intelligent on such matters, argues that although England will thus get what she wants—the gold from America, she will still be a considerable loser by the events which have occurred. Specie, he reasons, being at a premium in America, her paper must be proportionately depreciated, and America, he concludes, is designing to cheat us by paying us in this depreciated currency. This, however, she cannot legally do. It is a constitutional law in America, which neither the local nor federal governments can alter, that coin is the legal money of the country, in which the creditor can compel all accounts to be settled, so that if the paper currency became ever so much depreciated, debts and credits would not be affected thereby. Though no gold or silver remained in America, all accounts must be settled in reference to their value. If, for instance, the paper currency of New York became depreciated 10 per cent., a debt of 100 dollars would have to be paid by 110 dollars in paper. The English creditor, therefore, will be just as well off as if he received 100 dollars in specie.*

* It does not appear that creditors enforced the law in this respect, but took payment of their debts in the depreciated currency, though not legally compelled to do so.

From these considerations we anticipate that the present state of things in America will be productive of mutual advantage ; and to ourselves at least can work no harm. It will release a large quantity of specie which will flow to England in discharge of the debts due to it ; and by removing the immediate pressure from the banks, will contribute to restore confidence, and revive commercial and productive activity in America. The last advices from that country, which reached town yesterday, state that the paper money of every description has already established itself there in good credit.

ARTICLE III.—THE PRESIDENT'S MESSAGE TO CONGRESS.—
SEPTEMBER 30, 1837.

If the speeches of our first magistrates are usually considered too brief, those of the President of the United States are apt to run into an opposite extreme ; and in giving Mr. VAN BUREN'S Message to Congress, assembled to take into consideration the commercial and financial embarrassments of his country, we have thought it would be more acceptable to our readers to furnish it in a compressed form.

The general situation of America is this :—its commerce is brought to a stand, its industry suspended, and its banks have stopped payment. The object of the latter in stopping payment, was to prevent further contraction of the currency, which the existing demand for specie would have produced ; and there is, probably, no other remedy than to allow this state of things to continue until matters come round. The only practical proposition, having immediate reference to the currency, made by the President to Congress, however, is, to create a *fresh* demand for specie to the extent of 10,000,000 of dollars. He attributes all the existing evils of the country to banking and over-trading, and is opposed to the re-construction of a national bank ; and, generally speaking, seems, by his views at least, more intent upon preventing the restoration of his country's prosperity, than promoting it.

It does not, indeed, appear to be within the power or the province of the Central Government to do much towards the required relief; and notwithstanding the President's Message, the Americans are too shrewd a people to make bad worse. We, therefore, anticipate very little beyond discussion from the present meeting of Congress; but if this discussion disabuses the American public of the currency notions which they have imported from this country, it may eventually lead to the practical improvement of their system.

CHAPTER IX.

INTRODUCTION.

THIS chapter consists of only *one* very short article, being the only one on the subject, but which has reference to an important recommendation in the history of currency.

STOPPAGE OF CASH PAYMENTS IN CANADA; AND SIR FRANCIS HEAD'S MODE OF DEALING WITH IT.—JULY 15, 1837.

We desire to call attention to a letter, addressed by the authority of Sir Francis Head, the lieutenant-governor of Canada, to the banks of that province, upon the subject of the recent pressure upon them for specie. It merits our attention, as proposing a very simple experiment in the science of currency. In this country we have two extreme parties, classified heretofore under the titles of *Brimwichams** and *Macullochites*, to both of whom, differing *toto calo* as they do, Sir Francis Head's mode of dealing with the difficulty will equally appear too natural to be the true one. The *Brimwichams*, impatient under the encumbrance of a metallic circulation, would have seized the occasion of slipping from under it, and soaring upon wings of paper into the regions of unlimited prosperity! The *Macullochites*, on the other hand, the moment they found the gold going from them, would have sacrificed paper and prosperity, and every thing else, to get it back again. It is almost needless to say, that neither

* Birmingham is the hot-bed of this school, the doctrines of which appear to have been adopted by the whole population, who, as will be seen by a subsequent article, propose to rebel in their favour.

party would have done the state much service. The *Brimwichams* would have sown the seed of another revulsion like that of 1819; and the *Macullochites*, of another panic like that of 1825. The Gordian knot of the currency question is, to “make a paper currency work in the same way as if it were purely a metallic one.” If Sir Francis Head had studied the question in either of our modern currency schools, he would have rendered the knot by his meddling more intricate and impracticable than ever; but, not having been initiated in the mystifications of the subject, he has adopted the simple Alexandrian method of cutting it. His instructions to the Canadian banks are these:—“Pay in gold as long as you can, and when it is exhausted, we will authorise you to do what you would be compelled to do, namely, to stop payment until the gold returns.” The result of this experiment will, perhaps, establish a principle which we ourselves may be led to adopt; that is, to avoid producing a real panic by the artificial one, which the idea of losing our gold has hitherto had the effect of creating.

CHAPTER X.

INTRODUCTION.

THIS chapter contains *two* articles, explanatory of the real evil which resulted from the suppression of the United States Bank, with suggestions on the subject,

ARTICLE I.—THE TRUE EVIL PRODUCED BY THE SUPPRESSION OF
THE UNITED STATES BANK.—AUGUST 26, 1837.

A great portion of the American people are as short-sighted as Mr. Macculloch himself, in imagining that the dissolution of the United States Bank was the original cause of the present mischief, whereas it had not the remotest connexion with it.

The effect of curtailing the United States Bank of its “fair proportions” was merely to transfer its business to others; and had no more influence in producing the late convulsions, than Mr. Biddle would by changing his name. The real evil that arose from the refusal to renew its charter was, that General Jackson thereby deprived the Americans of a great national convenience for carrying on the internal exchanges, without providing a succedaneum for it. In this country the drafts of any banker will serve as a remittance to any part of the kingdom, because they are drawn upon London, where the internal exchanges are universally balanced—London being to the kingdom at large, what the clearing-house is to London. In America there is no such arrangement; and the assistance, therefore, which the United States Bank afforded in this way, is

grievously missed ; for, independent of the drafts of the Bank and its branches upon each other, its notes, being current every where throughout the States, were themselves a means of remittance in any direction. This is the sum and substance of what the Americans lost by the suppression of their National Bank ; but it is the fashion with a great and respectable majority just now to date all their calamities from that event.

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ARTICLE II.—THE GOOD THAT WOULD RESULT FROM THE RE-
ESTABLISHMENT OF THE UNITED STATES BANK THROUGHOUT
THE UNION.—PUBLIC OPINION ON CURRENCY IN AMERICA,
&c.—OCTOBER 7, 1837.

Some interesting details from the United States will be found in our paper, from which it may be inferred that public opinion there is decidedly in favour of a national bank, and that this will probably be the opinion of Congress, notwithstanding the President's objection to it.

The want of such an establishment is clear and obvious. At present, if a remittance is required from one state to another, and bills of exchange, drawn in payment of goods or produce, are not to be obtained, money of course must be remitted ; but the banking establishment of each state being purely local, the notes of one state will not readily pass current in another ; and if specie be remitted, not only is the internal conveyance troublesome and expensive, but the currency of the state from whence the remittance is made must be reduced to three times the amount of the sum parted with, in consequence of the law which compels each bank to confine its circulation to three times the specie in its coffers.

The internal exchanges are consequently a source of derangement to the currency, independent of the trouble they at present occasion ; but if there were a bank established, with branches all over the Union, and whose notes were in general circulation, not only would the branches of such an establishment draw upon

each other, but the notes would in themselves form a convenient remittance from any one part of the Union to another; by which the inconveniences at present felt would be altogether obviated.

The President's objection to such a bank is professed to be a constitutional one; viz. that such an establishment possesses too much influence for a republican government, inasmuch as it may be used for the purposes of party. The proper remedy for this, however, is not to prevent the formation of an institution so necessary to the country, but to allow the establishment of any number of them; so that if one party have a great bank to support them, the other party may patronise another. It is the monopoly only that can give one bank undue power. A free trade in banking would neutralise this effect, and supply the public with the convenience required on the best terms, and without any political mischief. The want of a free competition in joint-stock banks is a great evil throughout the union, and the source of much jobbing, as well as other evils, which it would be very desirable to avoid.

With the exception of the formation of a national bank, which would afford no immediate relief to the present distress, the Congress does not seem to have the power of doing any thing; while public opinion in favour of the resumption of specie payments appears to be impelling the banks onward in the course by which the evil was produced; for, with a view to the resumption of cash payments, they appear to be still further contracting their issues. This is any thing but a wise course, and calculated to aggravate rather than diminish the evil. They seem, however, to be aware that they ought not to resume specie payments until the exchanges take a turn. At present the number of notes in circulation is below the proper level; and it is quite certain, that with a circulation so circumstanced, the balance of payments must at no distant date come round in their favour; and prudence would naturally suggest, not to make matters unnecessarily worse, but to wait till the favourable period arrives; on the contrary, if any thing is done at all, they should increase the circulation as far as the object of turning the exchanges in their favour would permit; and they have a rule easily ascertained, to

regulate their course, namely, the amount of issues which at previous periods have been found consistent with maintaining the balance of payments in their favour.

With respect to the American currency at large, recent events, as well as its earlier history, show, that an improvement in it is desirable ; but as matters stand at present, we doubt whether any is practicable. The general government is not invested with the necessary powers, if they possessed the requisite knowledge ; and the individual states, from their discordant interests, and from their subjection to public opinion, which in this case may be called public ignorance, seem incapable of receiving or digesting any wise and uniform measure. All therefore that can be expected is, that things will come right again, spontaneously, in time ; and all that can be hoped for is, that, as this is the only method of cure accessible to them, they will not prevent it, and make things worse by indulging in the nostrums at present proposed.

CHAPTER XI.

INTRODUCTION.

THIS chapter consists of *two* articles, both of them advocating the principle of our exchanges with foreign countries being in the hands of joint-stock companies; and condemning the line of conduct which has been adopted by government, with respect to the companies mentioned at the head of the articles, to one of whom a charter was given, and to the other refused.

ARTICLE I.—BRITISH NORTH AMERICAN BANK.—BUSINESS OF FOREIGN EXCHANGES.—JULY 1, 1837.

We beg to call the attention of our readers to the proceedings of a general meeting of the shareholders of the British North American Bank. From the report, and other explanations which were elicited, it appears that the transactions of the company have been attended with much success, and that the field for them is daily extending, through the rapidly increasing wealth and population of the colonies. We quite concur with the remark we quoted last week from the Chancellor of the Exchequer, that joint-stock banks are one of the greatest improvements effected by modern discovery: they present us with a combination of commercial powers as much superior to the isolated agency of a private bank, as the combination of mechanical powers in a modern engine is to the action of a single one in the days of our forefathers; and what we have to regret is, that a timidity, which arises from a want of intimate acquaintance with their principles and operation, has hitherto interfered

to prevent us from availing ourselves of all the capabilities of the invention. The British North American Bank is one of those excellent institutions at hand to elucidate our meaning.

A great advantage, and indeed an important part of the business, of this bank, is the conducting the exchanges between this country and our North American settlements; and this consists simply in buying and selling bills upon London, precisely in the same way as our provincial bankers do. As an instance of the latter practice; if a person at Leeds wishes to remit money to London, he goes to his banker at Leeds and purchases a bill upon London for that purpose; and, on the contrary, if he has a bill upon London in his possession, he takes it to his Leeds banker, who gives him the worth of it. The country banker is thus the great medium of exchange; and it is evident that there must be in the colonies either regular banks, or merchants acting as banks, to do a similar description of business; and hitherto it has been done principally by the latter. Now, mercantile houses are liable to failure from a variety of causes, and the international exchange, therefore, while in their hands, could not but be susceptible of frequent derangements; and, of all branches of business, there is none in which interruptions engender so much difficulty and loss. This has been clearly seen from the late stoppages of the American houses in this country, the effects of which have been felt by every commercial community, not only of Europe and America, but through the world, wherever the commerce of this country and America extends. The business, therefore, of the exchanges should be carried on by large joint-stock companies alone, whose credit and capital would be too ample to be affected by the shocks against which individual and mercantile character and wealth have been found unable to keep their footing. No one can doubt that establishments of this kind are the best preventives against the recurrence of such embarrassing stoppages as have been witnessed during the last five weeks; and it is the duty, and the official part, of a provident Government to give every encouragement to their formation. Yet, strange to say, our Government actually resisted the formation of the British North American Bank—at least they did not encourage them in obtaining so much as an

Act of Parliament to enable them to sue and be sued, and resisted every other privilege being conferred on them. It is very difficult to discover upon what principle the resistance could have been grounded, or to find even a consistent rule of error by which the Government are occasionally induced to refuse their sanction to companies of this description. They gave a charter to the Colonial Bank, which was established for the better management of the West Indian business, and also to the Bank of Australasia. What was there dissimilar to these in the British North American Bank? Whatever may have been the reason for the partiality in the one case, or prejudice in the other—or more probably, a want of consideration in both, it was an erroneous one. The British North American Bank has a direction so respectable, and one which enjoys so much the confidence of its shareholders, that a charter is perhaps not of indispensable consequence to them; but if they feel that they still need further facilities, we trust they will again apply to Parliament on the subject, and we can assure them of our most strenuous support in the prosecution of their claim. Indeed, we shall make it a point of principle to keep the subject generally under discussion, until we see Parliament imbued with those correct notions regarding it, which, we are sorry to say, they do not at present entertain.

ARTICLE II.—BANK OF AUSTRALASIA—COLONIAL BANKING.—
JULY 22, 1837.

Looking to the excess of material continually pressing upon us, it can hardly be supposed that, as a question of business, we should devote much of our attention to those institutions which do not think it worth their consideration; and we cannot say that the *Economist* has met with any thing like flattering encouragement from the Bank of Australasia. Nevertheless, there are circumstances connected with the history of that bank, which, independently of the respectability of its management, merit observation.

In the first place it appears, by the annual report of the company, which we have given elsewhere, that *in the first six months* of their operations they made a profit at the rate of nearly fifteen per cent. upon their capital; and we believe this to be the lowest average rate of banking profit in our Australasian settlements.

The second fact of importance communicated by the report is, that the bills drawn by the branches of the company upon its London office have been quoted in India, whenever they have appeared, at the same rate as Government Bills. In the remarks which we lately made upon the British North American Bank, we pointed out the necessity of having our international exchanges carried on through the medium of public companies, and the fact we have just mentioned is a corroboration of our views. The merchants of India would, of course, give a higher price for a bill, the payment of which is certain beyond the reach of any casualty, than they would for a bill, to which, however respectable the individuals pledged for it, the same certainty is not attached; and this preference, very natural at all times, will unavoidably be strengthened by the late stoppage of the American houses, upon which so many bills from India were drawn.

But the main thing in the history of the company, which was more especially our object in adverting to it, is the following:—After the establishment of the company became known at the Cape of Good Hope, they were applied to by the inhabitants to establish a branch in that colony, and the field being such as to afford scope sufficient for one, the directors were desirous to comply with the invitation. But proposing to be established under a Royal Charter, this, with other arrangements, came under the supervision of the Ministers of the Crown, who demurred to it, saying, “We will give you a charter, if you please, for Australasia, and a separate one for another company, though under the same direction, for the Cape of Good Hope; but we will not allow you to comprise both establishments in *one*.” It is difficult to say with confidence or precision upon what principle the objection was grounded; but the assigned reason, we believe, was, that by having a separate company for the Cape of Good Hope, a separate capital would be obtained for its security; and probably

there was also some vague idea afloat about preventing any thing like monopoly. The practical effect was, that the bank for the Cape of Good Hope proved an abortion. The colony might have supported one as a branch of a larger company, but it could not have borne the expensive machinery of an independent establishment.

The whim of insisting upon the security of a separate capital for the colony was every way absurd ; for, in the first place, the company would not have started a branch there without such a capital as would be found adequate for this addition to its business ; and, in the second place, the aggregate of risk in banking is always diminished in proportion as the field over which it is spread is increased. For instance, it appears that the Bank of Australasia do not succeed very well at Hobart Town, while their success at Sidney and Launceston is considerable. If the same principle had been allowed to interfere in these places which the Government have applied to the Cape of Good Hope, the establishment at Hobart Town, which it is nevertheless anticipated will turn out profitable in the end, would have been ruined or abandoned. As matters stand, the more vigorous banks at Sidney and Launceston uphold it in the difficulties of its outset without any serious incumbrance to themselves ; and though the company gain nothing by the bank at Hobart Town, be it remembered that the *public do* ; and that, not only by the competition so beneficial to the public in banking as in every thing else, but by the system of international exchange by bills upon London, which the large capital and credit of this bank enables it to bring into effectual operation. The Government, moreover, overlook another advantage of large companies ; namely, the comparative saving in management, which *pro tanto* is itself a pledge of safety to the public. And this consideration presses more particularly in the case before us ; for, in the management of such distant establishments, an expensive process of inspection has to be kept up ; and the Cape of Good Hope, lying as it were on the road-side between London and Australasia, suggests itself at once as a natural appendage to such a company as the one we are commenting upon.

The point to which these remarks lead us, is the mischief of

Government interfering in these matters at all. Our statesmen have "Free Trade" constantly on their lips, while their lives are as constant a course of interfering with it whenever they have the opportunity. An application for a charter has hence become a perfect annoyance, and we should think that an Act of Parliament is far the better path to pursue ; for the provisions of Acts of Parliament must necessarily be based upon some general principles, whereas charters are subject to the fancies of whoever may have the granting of them at the time. We are inclined, indeed, to go further than this, and say, that when companies *can* be carried on without *either*, it would be advisable to avoid altogether being plagued with the interference of those who have a Ministerial control in such matters.

CHAPTER XII.

INTRODUCTION.

THIS chapter contains *two* articles, [the object of which is to point out the obstruction to sound knowledge that results from the Birmingham Currency School attempting to obtrude their peculiar notions into the consideration of a practical question, which has obviously nothing to do with them : showing at the same time the inconsistency of their views, as well as their inutility.

ARTICLE I.—POPULAR NOTIONS IN BIRMINGHAM ON CORN, CURRENCY, AND THE PRESENT CRISIS.—SEPTEMBER 9, 1837.

In the month of July of last year, the manufacturers and artisans of Birmingham, and, indeed, of the kingdom at large, were enjoying a great degree of prosperity. The demand for labour was great, and wages consequently high ; and at the same time food was abundant, the price of it indicating not a scarcity of the supply, but an increase in the means of the labourer to purchase it. The possession of these means, or, in other words, the plentifulness of money amongst them, was certainly no symptom of any deficiency in the currency. On the contrary, many persons both in and out of Parliament, conceived that the additional million or so of notes, which had got into circulation in the space of two or three years, had been the real cause of our flourishing condition. But suddenly a change came over the spirit of the times ; and, without any natural law or phenomenon to account for it, the nation at large, and Birmingham in particular, was

plunged into a state of most vexatious and ruinous embarrassment. It is not to be wondered at that parties so suffering, and that evidently not by any dispensation of Providence, but by the blundering of man, should not only *complain*, but that they should inquire, and with some degree of impatience, into the origin of the evils they are enduring. With this view a meeting of a *committee*, the resolutions of which will be found in our third page, appears to have been held recently at Birmingham, to consider the causes of the existing distress. They state themselves to represent a body of 13,000 workmen, as well as the merchants and manufacturers of the place; and, in their behalf, express a decided, and certainly not irrational, opinion, that the effectual and permanent relief of the present distress is a question paramount to all others. The conclusion, however, at which they arrive, is an extremely curious one; though strikingly illustrative of that confusion of ideas upon the subject of the economy of nations, in which our pseudo-philosophers have contrived to involve the sober-minded people of this country, by imparting to them their own ignorance of those first, great, though simple, principles which every science furnishes to those who use their eyes, as lamps to lead them from the labyrinth of error.

We have no knowledge of the parties composing the committee; but there can be no doubt that they are men of intelligence, and represent at least the *opinions* current amongst the classes by whom they profess to have been appointed. Now, the real cause of the distress, as we have repeatedly expressed, is to be traced to the conduct of General Jackson in America, and the mismanagement of the Bank of England at home; and there was, consequently, only one tangible consideration open to the committee, namely, an inquiry into this mismanagement of the directors of the Bank of England—an inquiry we must admit to be most difficult, inasmuch as there does not appear to be in Parliament the sort of knowledge requisite to direct it, unless it should hereafter be found in gentlemen who have not yet identified themselves with the question. But the Birmingham Committee have entirely missed the true road to the sources of the distress, to bewilder themselves with the popular nostrums of the day. There are two parties in this country on this much contested point; one which holds

all wealth to consist in *high* prices, to be obtained by the substitution of paper for gold ; and another which holds all wealth to consist in *low* prices, to be obtained by the use of gold alone, and a free importation of corn. It is almost needless to remark, that the two principles are diametrically opposite to each other ; and yet the Birmingham Committee insist upon the application of both. They want cheap money and cheap food. They say, “ that there can be no doubt that the Corn Laws, and all other laws prohibiting or restricting the importation of human food, have a tendency to make food dear ; and that it can be proved that the money laws at present in existence have a tendency to make money dear :” and that, in short, our laws having this tendency, both food and money are made dear at the same time,—an “ anomaly” and “ double oppression,” of which they grievously complain, and would have much reason so to do, if it did, or could possibly exist. But food and money cannot be dear at the same time. Food being dear, money is cheap ; and money being dear, food is cheap. In each case, the terms are convertible ; the propositions, indeed, identical.

It would be cruel to ridicule men in distress, merely because they have not been brought up in a sound school of political economy ; and it is very far from our intention to do so. We would advise them, nevertheless, not to petition Lord Melbourne to work miracles ; for what they propose to petition for, we should scarcely deem less than one. What they *ought* to petition for is, as we have already said, a more searching inquiry into the principles of the management of the Bank of England than has hitherto been achieved. It must be obvious to them that the Corn Laws, which existed in the July of 1836, did not produce the distress of the following September ; and that Mr. Peel’s Bill of 1819, the bugbear of the currency Birmingham school, had as little to do with the matter. Whatever may be the policy of those two measures in their general effect, they had no particular application to the period alluded to ; whereas it must be known to every manufacturer, merchant, tradesman, and even workman, in Birmingham, that the Bank of England exerted a very active and immediate influence in producing the disastrous change which so suddenly occurred in their prospects. How the Bank did this,

and how to prevent her doing it again, is the question which they should urge. When the inquiry was renewed at the commencement of the last session of Parliament into the management, &c. of joint-stock banks, a by no means inconsiderable section of the House insisted that it ought to be extended to the management also of the Bank of England. It was met by the *argumentum ad terrorem*. Mr. Warburton said, "that the greatest evil he could contemplate would be the creating of alarm in the country, and bringing about the worst of calamities, a stoppage of payment, by choosing a bad and injudicious period for instituting an inquiry affecting the Bank of England." This, we suppose, was the feeling of the majority; and thus it is that, on one pretext or another, the investigation so imperatively necessary is constantly staved off. When things go wrong, it is injudicious; and when they go right, it is unnecessary! If, therefore, the Bank is to be subjected to inquiry, it must be called for strongly and pertinaciously; and, if any good is to come from it, it must be an inquiry, not as hitherto managed and directed, to pave the way for some preconceived measures, or to confirm some preconceived opinions, but an inquiry after the truth, open, independent, and unconfined.

ARTICLE II.—BIRMINGHAM MEMORIAL ON CORN AND
CURRENCY.—OCTOBER 14, 1837.

In our last number we adverted to a memorial, by the inhabitants of Birmingham, to Lord Melbourne, representing the distress of all classes in that town, and calling for the adoption of such measures as they deemed necessary and effectual, not only for their present relief, but for their future security. The memorial, we presume, is from the pen of Mr. Thomas Attwood, and certainly exhibits him as no mean proficient in the art of composition; and as, moreover, it embodies the opinions of a large class of our fellow subjects upon the *causes* of the pressure from which they are suffering so severely, it demands attention, and more imperatively from the statesman, whether those opinions are cor-

rect or not. If they are well founded, then it would be unjust to omit applying the remedies which the memorial suggests; and if erroneous, it is equally desirable that the error should be pointed out, and the true solution of the evils sought for with the view of avoiding their recurrence.

The proposition advanced in the resolution upon which the memorial is based, runs as follows :—

“ The alternations of great apparent prosperity and sudden deep distress which have invariably attended the expansion or contraction of the currency, prove beyond doubt, that to our monetary system is mainly to be attributed the present general and alarming distress. In the opinion of your Committee, no permanent relief can be given while that system which has been proved so liable to fluctuations is suffered to continue.”

We apprehend that amongst people of ordinary intelligence this proposition will meet with no dissent. In pointing out our monetary system as the *instrument* of the alternations complained of, it only asserts what is now universally admitted. It still, however, explains nothing as to the *cause* of them. We all know that it is in our monetary system that the baneful derangement takes place; but as to what *causes* that derangement, is a point by no means so generally understood. The opinion of the memorialists is forcibly given in the following paragraph :—

“ Hitherto, my Lord, this great subject has not been generally understood; the present is about the fifth period of depression and distress which has occurred in England during a period of twenty-two years of profound peace, which ought to have been years of uninterrupted prosperity and contentment. At each period the people have been struck by an *unseen hand*; their fortunes have been sacrificed, and their industry blasted by *unseen laws*. Those laws are now laid bare to the public eye. *Corn Laws*, to make scarce the food which *supports man's life*; and *Money Laws*, to make scarce the money which *purchases the food*. *Corn Laws* to aggrandize the *lunded interest*; and *Money Laws* to aggrandize the *monied interest*. Crushed between this double oppression, the people are either deprived of employment altogether, or they are reduced to half employment; or *they are*

condemned to give much labour for little money, and then they are condemned to give much money for little food."

A curious combination of measures is here proposed; first, a free trade in corn to *lower* its price, and a depression of the standard which would *raise* its price. Let us examine them separately.

With regard to Corn Laws, Mr. Attwood assumes that the effect of them is to make food more difficult to be obtained; but this is not so self-evident as he takes it to be. Suppose, that with a free trade in corn, wheat averaged 40s. per quarter, and other things in proportion; but that by the imposition of a Corn Law, wheat rose to 60s. per quarter, and other things in proportion. In explanation of this phenomenon, no one would contend that less wheat would be *produced* in this country at 60s. than at 40s.; and if the rise in price was not caused by a diminution of the quantity grown, it could only be caused by an increase in the quantity of money to be given for it—or, as Mr. Attwood would express it, by the Corn Law having made money cheap. Corn Laws therefore are not merely laws to make food scarce, but to make money plentiful; and when unaccompanied by this latter result, are a dead letter, and of no effect at all. Hence, what Mr. Attwood puts forward as an identical proposition, namely, the co-existence of laws to make food dear and money scarce, is an impossible one. Without troubling ourselves with analysing the process, we may rest assured that no law can raise the average price of food, without lowering the average value of money. The labouring classes may be in the condition described by Mr. Attwood, namely, "to be condemned to give much labour for little money, and to give much money for little food;" but he assigns wrong causes for the anomaly, inasmuch as they are inconsistent with each other; and it therefore is not surprising that the remedies he proposes are equally so.

Next, with regard to an alteration of the standard. Such a measure would, no doubt, reduce the obligations of all debtors, public and private; but how this would benefit the labouring classes, we do not as yet perceive. A debtor would certainly be able to discharge a greater amount of debt with the same sum of money; but it does not follow that a labouring man would be

able, with the same sum of money, to command a greater quantity of food. And the cause of the difference is obvious; for the very condition of lowering the standard (at least as a *means of relief*) is, that debts are to remain as before, whereas the price of food will not remain as before. There is a certain quantity of food produced in the country, and those whose income is independent of labour, consume what they wish of this quantity without considering the price. The remainder is purchased by the aggregate labour of the country with whatever they have to give for it, and the quantity of money which they have to give for it determines its price. An alteration in the standard therefore might make more pieces of money pass through their hands, but would not make more pieces of bread pass through their teeth.

But would not the reduction of the national debt, by an alteration of the standard, benefit the labourer? The condition of the labourer is affected only by the *expenditure* of income; and as the national debt is nothing more than a different (and more equal) distribution of the income of society, than would take place without it, this to the labourer is, at all events, no evil.

Mr. Attwood, in short, has taken up premises of a very disputable nature, and reasons from them as if they were self-evident truisms; but if we grant that his principles are sound, they do not apply to the fluctuations complained of. If the standard were altered, it would not prevent banks increasing and diminishing their issues; for when the currency had once become adapted to the altered measure of value, derangements would be just as easy, and just as likely, to be caused as before. And with respect to a free-trade in corn, importations of corn have always, by their action upon the currency, aggravated our fluctuations; adding to the temporary prosperity on the one hand, and increasing the subsequent depression on the other. Our foreign corn trade has never hitherto proved any blessing to the country; and whether it can be rendered so, is a question yet to be settled,

The case is simply this. At the commencement of last year the people had full employment, and there was a sufficient supply

of food for the country at large : but suddenly, and not by the hand of God but of man, the employment of the manufacturing part of the population was suspended, and they could no longer command their proper share of food, though the supply of it was as sufficient as before. What was the prime and active cause of this affliction is the real question, and one upon which the people of Birmingham have a right to be satisfied, at least as far as a fair and unbiassed inquiry can conduce to that end. The blow was doubtless struck by the Bank of England; and it is evident from the following paragraph, that the memorialists are of this opinion, though they have mixed up some of their peculiar nostrums with it :—

“ When the masses of the people were lately fully employed, and received in some degree reasonable wages, *with six days' work per week*, they required more sovereigns than the Bank of England could continue to supply ; the Bank of England became nearly exhausted, and was compelled, *in its own defence*, to adopt measures to force back the gold into its coffers out of foreign countries, and out of the uses of industry at home, in defiance of all the misery and distress which such a terrible operation produces in the country. It is only by placing the industrious workmen *upon reduced wages, and upon three days' work per week*, and by *crushing and ruining a large proportion of their employers*, that the Bank of England has now been enabled to force back the gold into her coffers, and to save herself from ruin by scattering ruin, misery, and desolation among thousands and hundreds of thousands of families.”

Here we have the matter explained with tolerable correctness and simplicity; and the proper inquiry to be called for is, whether the Bank of England brought about the mischief by a mode of management which requires to be rectified, or whether it arose from a defect in the system which it is necessary to remove. For our own parts, we are satisfied that mischief flows from both these sources; that the management of the Bank is bad, and that the system itself is capable of great improvement; and, that, without any of those violent changes and injuries to private interests, which the propositions generally made on the subject are found to involve.

But the questions put by the memorialists to Lord Melbourne are calculated rather to stifle inquiry, than promote it. They amount simply to this: will you consent to some measure for lowering ("permanently relaxing," as Mr. Attwood expresses it,) the standard of value? and if Lord Melbourne should answer in the negative, the memorial insinuates that "the industrious classes, exasperated by disappointments and sufferings," will be "prompt to entertain designs for overturning a fabric of society which no longer affords them shelter and protection." This, we are sure, was said more in sorrow than in anger; and we must not wonder if the language of those who *suffer* the distress is somewhat warmer than would be adopted by those who are merely called upon to *pity* it. What we most regret is, that they should demand so hotly a *wrong remedy* for it.

We trust, however, that the Government will not, because the sufferers of the distress are mistaken as to the cause of it, turn a deaf ear to their complaints. If the people have not found out the true cause, it is so much the more the duty of Government to find it for them; and we should hope that the effect of this appeal will be, to produce an effective inquiry into the management of the circulation by the Bank of England.

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